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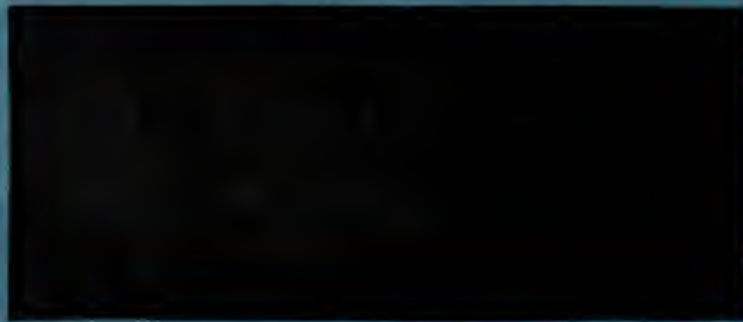
IMPACT OF PROJECT PRIME ON
THE FLEET MARINE FORCE
GROUND COMMANDER

by

William J. Beer
Lieutenant Colonel, U.S. Marine Corps

Thesis
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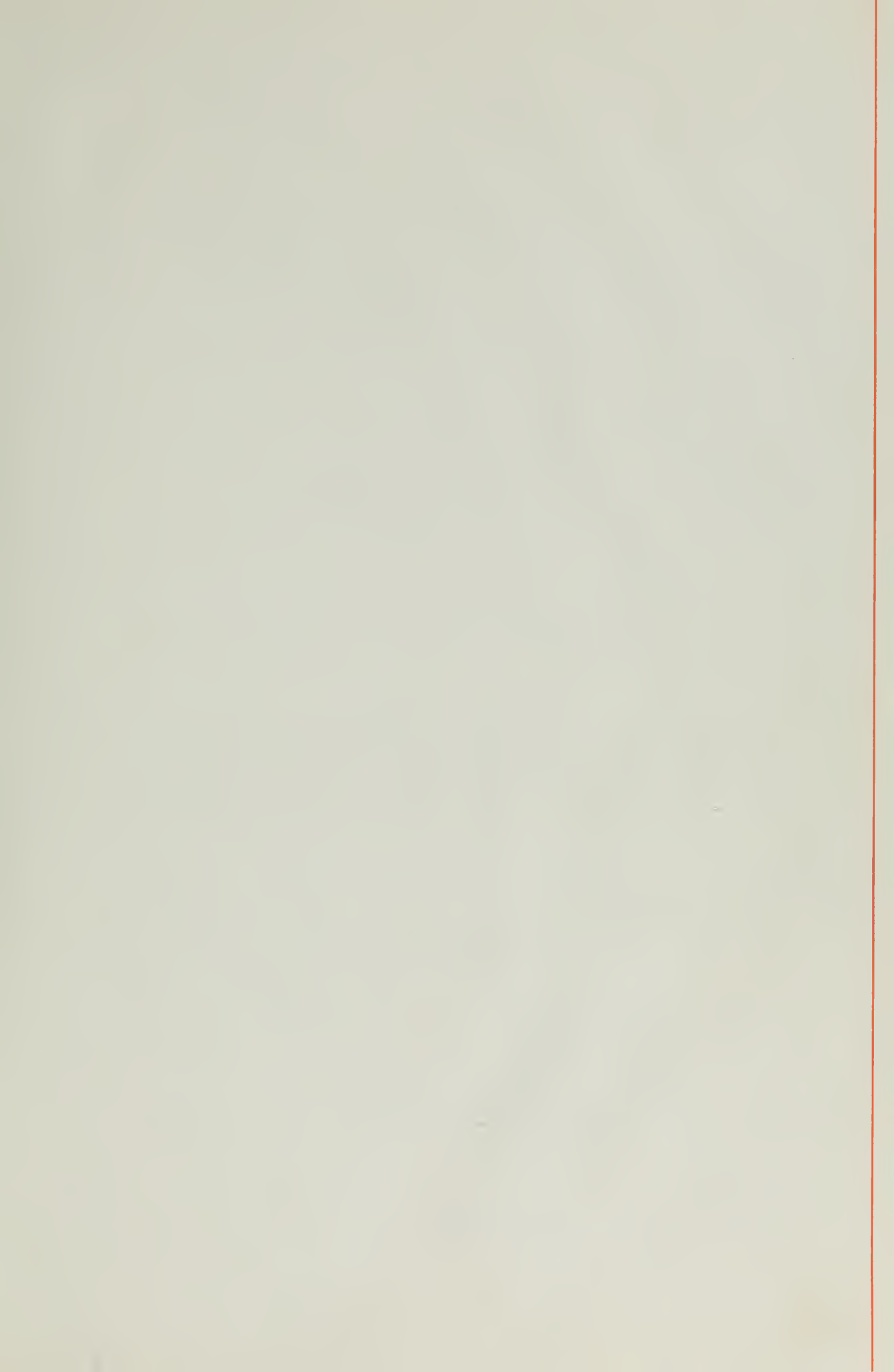
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William J. Beer

Bachelor of Science, 1959
Temple University

A Thesis Submitted to the Faculty of the School of Government
and Business Administration of The George Washington
University in Partial Fulfillment of the Requirements
for the Degree of Master of Business Administration

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Thesis directed by

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PREFACE

This study of the Department of Defense Project PRIME and its impact on the Marine Corps division was undertaken primarily as a self-education effort to expand the author's knowledge of the present Marine Corps Financial Management System and to learn of the changes that will occur on July 1, 1967. In June of this year, the author's status will alter from that of a student of financial management to the Assistant Chief of Staff, Comptroller, Fifth Marine Division, Camp Pendleton, California. The knowledge and information acquired while conducting this study will prove invaluable to him in implementing the changes specified by Project PRIME into the financial management structure of the Fifth Marine Division.

Project PRIME constitutes the first step in implementing Resource Management Systems within the Department of Defense. The Department of Defense Resource Management Systems are inextricably interwoven into the fabric of the Department of Defense Planning, Programming, and Budgeting System. The student encounters difficulty in treating in detail one aspect of the Planning, Programming, and Budgeting System without describing the entire system. Yet, treatment of the entire system is well beyond the student's capability. Accordingly, the planning and programming functions will be mentioned occasionally and terms will be defined for

clarification purposes, when necessary. However, this paper is concerned principally with budgeting and activities related thereto. Specifically, this thesis describes current financial management processes within the Marine division and attempts to assess the impact of Project PRIME's changes on those processes.

As with most human endeavors, this thesis could not have been prepared without the valuable assistance of other people. The author wishes to express his gratitude to Marine Corps Lieutenant Colonels Edward Y. Holt, Jr., and Martin E. Farmer for their assistance in obtaining and furnishing official documents. Also, the author sincerely appreciated the assistance, technical guidance, and moral support afforded by Dr. Edwin Timbers, thesis advisor.

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CHAPTER I

INTRODUCTION

Dynamic changes in managerial concepts, principles, procedures, and practices are occurring in the Department of Defense. Foremost among these changes is the program entitled Resource Management Systems. Resource Management Systems plus the first-execution phase, Project PRIME, are new to most members of the armed services and the public. For this reason, succeeding paragraphs of this introductory chapter will furnish the reader with a brief historical sketch, purposes, and concepts of Resource Management Systems. Then, the related Project PRIME will be described briefly and placed in context. Both subjects will be treated in depth in Chapter II. This approach purports to provide the reader with requisite fundamentals to appreciate detailed handling of the information presented by subsequent chapters.

Although the term Resource Management Systems is new, the managerial techniques espoused are not. Resource Management Systems have been evolving since the early 1950's. Assistant Secretary of Defense (Comptroller) Robert N. Anthony, concisely described the evolution of Resource Management Systems during a recent address to the Financial Management Roundtable:

For over a year, we have been making plans for the general improvement of resource management systems in the Department of Defense. We are not doing this simply because the idea suddenly occurred to us. Indeed, we are responding to mandates that go back to the Budget and Accounting Procedure Act of 1950, as amended by Public Law 865, and that are as recent as the memorandum from the President, dated May 24, 1966, requesting all Departments and Agencies to accelerate the pace of the Joint Financial Management Improvement Program.

But our purpose in undertaking this effort is not merely to comply with executive and legislative requirements. Our interest is in the manager, in enabling him and in motivating him to do the best, the most effective, and the most efficient job of which he is capable. Our purpose is to provide the manager with the tools to do such a job.

Our present program builds on work that has been under way for a number of years. The Controller of the Defense Department, Wilfred J. McNeil, worked out most of the concepts that we are applying today, and implemented many of them. Indeed, whenever someone says that what we are now doing is revolutionary, I must in all candor refer them back to Mr. McNeil's memoranda of the 1950's. There is little that we are now planning that he had not already thought of ten or fifteen years ago.

Moreover, the Five-Year Defense Program, conceived by Secretary McNamara in 1961 and worked out under the leadership of Charles Hitch, was a fundamental prerequisite to the improvement of resource management systems. It gave us a meaningful and orderly program structure against which to budget, account, and measure performance. The task of installing the program structure and related processes was so huge that Mr. Hitch decided that full attention would be devoted to it, and that its integration with budgeting and accounting would have to come later. It is that part of the job on which we are now working.¹

Resource Management Systems can be defined as those methods and procedures used throughout the Department of Defense that (1) deal with resources (manpower, real property, weapons, equipment, services, materials, and supplies), (2) are intended to assist the management of such

¹ Robert N. Anthony, "Closing the Loop," Address to the Financial Management Roundtable, Washington, D.C., October 25, 1966.

resources (planning, budgeting, acquisition, use, consumption, storage, and disposition), and (3) constitute systems (they involve recurring, orderly cycles of planning, reporting, and feedback information). Resource Management Systems affect the entire management process in the Department of Defense. This includes programming, budgeting, management of investment items, management of operations, accounting, reporting, and auditing. Note: Planning is often set forth as a separate management activity, but since programming and budgeting are parts of the planning process, it seems unnecessary to list planning separately.¹

The purposes of the Resource Management Systems are (1) to improve the decision-making process and (2) to aid managers at all levels (of command) in their function of ensuring that resources are obtained and used effectively and efficiently in the accomplishment of an organization's objectives.² Dr. Chei-Min Paik, Accounting 245 instructor and former student of Professor Anthony, aptly portrays the mental decision-making process and subsequent action as:

Sharpening the intuitive judgment of the manager by providing him with well-considered alternative courses of action from which to make a selection. Based upon the course of action selected, resources are allocated to accomplish the desired objective.

¹U. S. Department of Defense, Office of the Assistant Secretary of Defense (Comptroller), A Primer on Project PRIME (1966), p. 7.

²Robert N. Anthony, "What's Ahead," The Armed Forces Comptroller, II, No. 1 (January, 1966), 3.

As approved by Secretary of Defense Robert S. McNamara, the following concepts govern the Resource Management Systems of the Department of Defense:

1. Systems will be built on the structure of the Five-Year Financial Plan, although modifications in the details of this plan are probably desirable.

2. Systems will be designed to meet the needs of management at all levels within the Department of Defense, but there will be no change either in the way in which budget information is presented to the Congress (unless the Congress itself requests such a change) or in the way in which information is reported to outside agencies.

3. As an ideal, systems should incorporate all recurring quantitative information, although as a practical matter there is no way of preventing certain types of uncoordinated systems from springing up. These should be kept to a minimum.

4. The Office of the Secretary of Defense will prescribe top-management information requirements, the general principles, the definitions, and the uniform practices that are necessary for over-all consistency. Each service and agency will develop a system that both conforms to these principles and meets its own management needs.¹

How does Project PRIME interface with the greater inclusive program, Resource Management Systems? Project PRIME is the name given

¹Ibid.

to that portion of the Resource Management Systems effort which must be accomplished by July 1, 1967.¹ The term PRIME was not an acronym at the time the author's research proposal broaching this subject was submitted for approval. Since then, the term PRIME has become an acronym, whose components are as follows: Priority Management Efforts; used in this manner, PRIME implies the urgency for completing this huge task in such a short period of time.² Basically, Project PRIME seeks to revise the programming system, the budgeting system, and the management accounting system so that they will be more useful to managers at all levels. It is the core activity in instituting Resource Management Systems.³ The essence of the changes that Project PRIME is making can be described in the following points:

1. The objectives of the Resource Management Systems effort as a whole apply as well to Project PRIME. The sole purpose of Project PRIME changes is to aid managers--there is no desire to account for the sake of accounting or accountants. In this context, a manager is a person who is responsible for carrying out a significant mission or function and who in doing so makes decisions that have a significant effect on the resources used. Project PRIME is designed to aid managers in three phases of the management process: programming, budgeting, and operations.

¹Department of Defense, A Primer on Project PRIME, op. cit., p. 13

²Ibid., p. 4.

³Ibid., pp. 13-14.

2. Project PRIME is concerned with operating resources, as contrasted with investment resources. It has to do primarily with resources that are financed under the Operation and Maintenance and Military Personnel appropriations, not with the Procurement, Construction, or Research Development Testing and Evaluation appropriations.

3. Programming, budgeting, and management accounting will have an integrated structure. This means that the information used in these three systems will be consistent.

4. The focus is on expenses--that is, on the resources consumed by organization units in carrying out their part of the program. The programming system provides rough data on expenses by program element, but the present budgeting and accounting systems provide no information corresponding directly to program elements. In the current budgeting and accounting systems, perhaps only 15 to 20 per cent of the resources actually used by an organization are reported as costs of that organization. The long-range goal is to charge an organization unit with 100 per cent of the measurable expenses that it incurs.¹

In view of the preceding points, it is not surprising that those concerned with financial management in the armed forces should exhibit an intense interest in Resource Management Systems and the related Project PRIME. As stated, Resource Management Systems soon will become the

¹Ibid., p. 13.

way of life for commanders and financial managers at all echelons of command. Therefore, it behooves students of financial management to assimilate as much knowledge as possible regarding this new management system and to assess its impact upon our respective armed services.

Accordingly, the purpose of this thesis is an attempt to determine the impact of Project PRIME on the Fleet Marine Force ground commander. Emphasis will be placed on obtaining data in answer to the following questions:

1. What changes will occur in the current budgeting activities?
2. What changes will occur in the current management accounting structure?
3. Will organization changes be required?
4. What staffing and training problems will arise when Project PRIME is implemented?
5. What will be the impact on the unit commander's financial management responsibilities?

Implicit in the above are the limiting assumptions that Project PRIME will:

- (1) apply to U.S. -based commands only and will not affect combat commands;
- (2) be implemented with the Marine division at the lowest Fleet Marine Force command level designated as a responsibility center; and
- (3) be effective as of July 1, 1967.

Principal attention will be focused on the Marine division in evaluating the impact of Project PRIME on the ground unit commander.

and will be considered in the next section. The first part of the paper is devoted to the study of the properties of the function $f(x)$ defined by (1.1). It is shown that $f(x)$ is a continuous function of x and that it satisfies the functional equation

$$f(x) = f\left(\frac{x}{2}\right) + f\left(\frac{x+1}{2}\right) \quad (1.2)$$

for all x in the interval $[0, 1]$. It is also shown that $f(x)$ is a continuous function of x and that it satisfies the functional equation

$$f(x) = f\left(\frac{x}{2}\right) + f\left(\frac{x+1}{2}\right) \quad (1.3)$$

for all x in the interval $[0, 1]$. It is also shown that $f(x)$ is a continuous function of x and that it satisfies the functional equation

$$f(x) = f\left(\frac{x}{2}\right) + f\left(\frac{x+1}{2}\right) \quad (1.4)$$

for all x in the interval $[0, 1]$. It is also shown that $f(x)$ is a continuous function of x and that it satisfies the functional equation

$$f(x) = f\left(\frac{x}{2}\right) + f\left(\frac{x+1}{2}\right) \quad (1.5)$$

for all x in the interval $[0, 1]$. It is also shown that $f(x)$ is a continuous function of x and that it satisfies the functional equation

$$f(x) = f\left(\frac{x}{2}\right) + f\left(\frac{x+1}{2}\right) \quad (1.6)$$

for all x in the interval $[0, 1]$. It is also shown that $f(x)$ is a continuous function of x and that it satisfies the functional equation

$$f(x) = f\left(\frac{x}{2}\right) + f\left(\frac{x+1}{2}\right) \quad (1.7)$$

for all x in the interval $[0, 1]$. It is also shown that $f(x)$ is a continuous function of x and that it satisfies the functional equation

$$f(x) = f\left(\frac{x}{2}\right) + f\left(\frac{x+1}{2}\right) \quad (1.8)$$

for all x in the interval $[0, 1]$. It is also shown that $f(x)$ is a continuous function of x and that it satisfies the functional equation

$$f(x) = f\left(\frac{x}{2}\right) + f\left(\frac{x+1}{2}\right) \quad (1.9)$$

for all x in the interval $[0, 1]$. It is also shown that $f(x)$ is a continuous function of x and that it satisfies the functional equation

$$f(x) = f\left(\frac{x}{2}\right) + f\left(\frac{x+1}{2}\right) \quad (1.10)$$

for all x in the interval $[0, 1]$. It is also shown that $f(x)$ is a continuous function of x and that it satisfies the functional equation

The Marine division command level was selected for analysis

because: (1) General officers exercise command; (2) comptrollers supervise financial management; (3) formal allotment accounting ceases below the division level; (4) data processing units assist in the performance of management functions and are organic to the command; and (5) the division is considered the lowest command level staffed adequately to supervise effectively Project PRIME implementation. Commands subordinate to the division perform informal or memorandum accounting--i e., funds are furnished by means of planning estimates, or operating targets, or credit limitations; further, these commands are inadequately staffed to cope with the management complexities implicit in Project PRIME procedures. Superior command levels to the division are usually administrative headquarters. Thus, the Marine division constitutes the most suitable command level for assessing the impact of Project PRIME on the operational ground force commander.

Additionally, it is opined that ultimate success or failure of Resource Management Systems within the Department of Defense depends largely upon acceptance by the myriad of unit commanders. Commanders must be convinced that the Resource Management Systems' reporting procedures provide them with meaningful, useful, and objective tools for financial management at a reasonable cost. They must be persuaded that the proposed system provides better data than those furnished currently by the present allotment method of accounting. The implications here are that

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a sizable educational and training program is a prerequisite to successful system implementation. Otherwise, the attitude could develop that Resource Management Systems and the related Project PRIME are just another headquarters directed program superimposed upon an already overworked, undermanned staff.

As an illustration, there is no doubt that under Resource Management Systems, accounting concepts and procedures will become increasingly complex. Accounting officers and enlisted personnel trained in the handling of sophisticated accounting procedures will be required in substantial numbers. For example, few military personnel are trained in cost accounting concepts, principles, and practices. Yet, the fundamental premises upon which alternative courses of action are weighed under management of resources, and, ultimately, a course of action is selected, are based primarily on costing considerations. Thus, knowledge of cost accounting constitutes a keystone to understanding the rationale upon which the entire Resource Management Systems are based and by which they function. This problem and others noted above will develop as the present allotment method of accounting is described in Chapter III and is contrasted to the proposed system in Chapter IV. Chapter V presents conclusions and recommendations.

Because of the "revolutionary" nature of Resource Management Systems and Project PRIME, conventional thesis reference publications and books treating this subject are few in number. The most authoritative and current data are contained in Department of Defense directives,

pamphlets, and such unscholarly sources as magazine articles and verbal presentations by knowledgeable people. Treatment of this subject requires heavy reliance on these informal sources of information as the most authoritative available. Thus, this thesis will be pursued in the hope that a degree of latitude in this regard is acceptable to the University.

The objectives of this study are: (1) tracing the evolution of the Department of Defense Resource Management Systems; (2) describing the present allotment method for control of resources, with emphasis on the functions of the financial manager; (3) contrasting the effects implicit in the adoption of the Department of Defense Resource Management Systems as prescribed by Project PRIME procedures; (4) identifying several of the more pressing problems facing the financial manager (commander); and (5) analyzing these concepts, policies, and procedures. The writer sincerely desires to increase his knowledge and understanding of present and proposed Department of Defense financial management systems and their contribution to material readiness and resource allocation and control within the U. S. Marine Corps, and hopes to transmit this information to those who, by vocation or avocation, share the same interests. From an analysis of this information he presents recommendations for their consideration.

CHAPTER II

EVOLUTION OF RESOURCE MANAGEMENT SYSTEMS

The most significant application of comptrollership in governments in this country is in the U. S. Department of Defense, where the development coincided with the introduction of performance budgeting.¹

The term Resource Management Systems is of recent vintage and has gained widespread usage in the Department of Defense since Secretary Robert N. Anthony's appointment as Assistant Secretary of Defense and Comptroller in the summer of 1965. Although the term is new, Resource Management Systems have evolved over a period of approximately twenty years. It is interesting to note that the development of Resource Management Systems closely parallels budgetary reforms instituted in the Federal Government and, in particular, within the Department of Defense.

First Hoover Commission

The Commission on Organization of the Executive Branch of the Government (First Hoover Commission) was formed in accordance with Public Law 162, 80th Congress, approved July 7, 1947. The Commission found that there was a great need to reform the method of budgeting and the appropriation structure in the Federal Government and stated:

¹ Jesse Burkhead, Government Budgeting (New York: John Wiley & Sons, Inc., 1956), p. 259.

The Federal budget is an inadequate document, poorly organized and improperly designed to serve its major purpose, which is to present an understandable and workable financial plan for the expenditures of the Government.¹

A major budgetary reform was proposed by the Commission in Recommendation No. 1 of its Report on Budgeting and Accounting:

We recommend that the whole budgeting concept should be re-fashioned by the adoption of a budget based upon functions, activities, and projects: this we designate a "performance budget."²

This recommendation was supplemented by the proposals of

A. E. Buck in the Commission's Task Force Report. There it was stated:

A program or performance budget should be substituted for the present budget, thus presenting in a document of much briefer compass the Government's expenditure requirements in terms of services, activities, and work projects rather than in terms of the things bought. Such a budget would not detract from congressional responsibility and should greatly improve and expedite committee consideration.³

In the Commission's report examples of performance budgeting were set forth, and there was some discussion in general terms of the kind of budget that was intended. It may be properly inferred that the Hoover Commission's thinking about performance budgeting was shaped primarily by its concern for improving congressional review--for reducing the number

¹U. S. Commission on Organization of the Executive Branch of the Government, Budgeting and Accounting: A Report to Congress (Washington: Government Printing Office, 1949), p. 7.

²Ibid., p. 8.

³U.S. Commission on Organization of the Executive Branch of the Government, Task Force Report, Fiscal, Budgeting, and Accounting Activities: A Report to Congress (Washington: Government Printing Office, 1949), p. 43.

and improving the presentation of the programs with which the appropriations committees must deal.¹

Further, the Commission maintained that such a budget presentation would focus attention on the general nature and relative importance of services to be rendered or work to be done, rather than on the procurement of items, such as equipment, supplies, and services.² In essence, Recommendation No. 1 was that the budget should be oriented towards accomplishments through the use of resources (outputs) rather than on the procurement of resources (inputs)--i. e., a performance budget.³ Before proceeding, it is important that the nature of a performance budget be explicitly understood. Professor Burkhead provides the following concise definition of a performance budget:

A performance budget is one which presents the purposes and objectives for which funds are required, the costs of the programs proposed for achieving these objectives, and quantitative data measuring the accomplishments and work performed under each program.⁴

National Security Act Amendments of 1949

Amendments in 1949 to the National Security Act of 1947 reflected the work and proposals of the First Hoover Commission by providing that the budget estimates of the Department of Defense:

¹Burkhead, op. cit., p. 135.

²Commission on Organization, Budgeting and Accounting, op. cit., p. 8.

³Parentheses added. ⁴Burkhead, op. cit., p. 142.

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. . . shall be prepared, presented, and justified, where practicable, and authorized programs shall be administered, in such form and manner as the Secretary of Defense, subject to the authority and direction of the President, may determine, so as to account for, and report, the cost of performance of readily identifiable functional programs and activities, with segregation of operating and capital programs.¹

In this manner, the Secretary of Defense was given greater authority over financial management in the Department, and the Congress also required that he submit "performance budgets" thereafter. Accordingly, the budget and accounting structures of the military departments were simplified and made more uniform. Broad classifications such as Personnel, Operation and Maintenance, Procurement, Research and Development, and Construction replaced antiquated appropriation categories under which the technical services of the Army and the naval bureaus had received and administered their own separate appropriations. This change had the advantage of permitting comparisons between the military services and separated the one-year accounts from the longer range ones, but the results fell short of being a true performance budget.²

Another notable innovation of the National Security Act Amendments of 1949 was the creation of the position of the Assistant Secretary of Defense (Comptroller) and that of the comptrollers in each of the three military

¹U. S. Congress, National Security Act Amendments of 1949, Public Law 216, 81st Cong., 1st Sess. (1949), p. 10.

²Samuel A. Tucker (ed.), A Modern Design for Defense Decision: A McNamara-Hitch-Enthoven Anthology (Washington: Industrial College of the Armed Forces, 1966), p. 3.

departments. Known as Title IV to the Act, this portion also described the duties of the Comptroller of the Defense Department and military department comptrollers. Specifically, Sections 401 and 402 provide:

Section 401 . . . The Comptroller shall advise and assist the Secretary of Defense in performing such budgetary and fiscal functions as may be required to carry out the powers conferred upon the Secretary of Defense by this Act, including but not limited to those specified in this subsection. Subject to the authority, direction, and control of the Secretary of Defense, the Comptroller shall--

(1) supervise and direct the preparation of the budget estimates of the Department of Defense; and

(2) establish and supervise the execution of--

(a) principles, policies, and procedures to be followed in connection with organizational and administrative matters relating to--

(i) the preparation and execution of the budgets,

(ii) fiscal, cost, operating, and capital property accounting,

(iii) progress and statistical reporting,

(iv) internal audit, and

(b) policies and procedures relating to the expenditure and collection of funds administered by the Department of Defense; and

(3) establish uniform terminologies, classifications, and procedures in all such matters.

Section 402.

(a) The Secretary of each military department, subject to the authority, direction, and control of the Secretary of Defense, shall cause budgeting, accounting, progress and statistical reporting, internal audit and administrative organization structure and management procedures relating thereto in the department of which he is the head to be organized and conducted in a manner consistent with the operations of the Office of the Comptroller of the Department of Defense.

(b) There is hereby established in each of the three military departments a Comptroller of the Army, a Comptroller of the Navy, or a Comptroller of the Air Force, as appropriate in the department concerned. There shall, in each military department, also be a Deputy Comptroller. Subject to the authority of the respective departmental Secretaries, the comptrollers of the military departments shall be responsible for all budgeting, accounting, progress and statistical reporting, and internal audit in their respective departments and for

the administrative organization structure and managerial procedures relating thereto. The Secretaries of the military departments may in their discretion appoint either civilian or military personnel as comptrollers of the military departments . . .¹

Finally, Title IV lays the foundation for extension of the use of working-capital funds within the Department of Defense. Section 405 explicitly states:

Section 405. (a) In order more effectively to control and account for the cost of programs and work performed in the Department of Defense, the Secretary of Defense is authorized to require the establishment of working-capital funds in the Department of Defense for the purpose of--

(1) financing inventories of such stores, supplies, materials, and equipment as he may designate; and

(2) providing working capital for such industrial-type activities, and for such commercial-type activities as provide common services within or among the departments and agencies of the Department of Defense, as he may designate. . . .²

The National Security Act Amendments of 1949 were significant:

(1) as an expression of congressional approval for performance budgeting;

(2) by the establishment of the comptroller function in the armed forces with assigned responsibilities; and (3) for prescribing the extension of working-capital funds within the Department of Defense to promote increased effectiveness and efficiency in controlling the costs of programs and work performed.

¹National Security Act Amendments of 1949, op. cit., pp. 9-10.

²Ibid., p. 11.

Second Hoover Commission

The Commission on Organization of the Executive Branch of the Government (Second Hoover Commission) was formed pursuant to Public Law 108, 83rd Congress, approved July 10, 1953. On June 20, 1955, the Commission submitted its report to the Congress.

In review, the Commission favorably mentioned the improvements instituted in the budgetary process of the Federal Government since the First Hoover Commission. Specific areas of improvement within the Department of Defense were noted.

First, as authorized by the National Security Act Amendments of 1949, working-capital funds had been established for certain arsenals, supply services, and other commercial-type activities. Their use focused attention on and corrected in part inadequacies on traditional methods of programming, budgeting, cost control, and accountability from the standpoint of effective administration. However, the Commission observed that working-capital funds per se do not guarantee adequate accounting or managerial practices.¹

Secondly, the Act of 1949 recognized that effective consideration of the budget could be conducted only in terms of the end results it intended to accomplish. Consequently, the general use of program budgeting was provided for. Although progress in that direction had been made, the

¹ Commission on Organization, Budgeting and Accounting, op. cit., p. 9.

General Observations

The Commission has received a large number of suggestions from the public and from the various departments of the Government for the improvement of the public service. It has also received a large number of suggestions from the public and from the various departments of the Government for the improvement of the public service.

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program structure of the budget still requires revision. The Commission fully recognized that program budgeting presents a problem of comparing administrative performance to program accomplishments.¹

Thirdly, pursuant to the Act of 1949, the role of the comptroller in effectively administering the budgetary process had been recognized within the Department of Defense. However, success would be contingent upon well-trained personnel situated in key positions. In this regard, an effective training program should be initiated and perpetuated.²

Although improvements had occurred within the Department of Defense, the Commission noted that a great deal of work remained to be done. Later in the report, the Commission found:

In the Department of Defense, management control has been attempted in part through the control of funds under an overdetailed and cumbersome allotment structure. The control and accountability for appropriated funds is, of course, essential in order that the Department may comply with the constitutional authority. However, this does not require an allotment system as detailed and meticulous as that which has been employed. The effect of attempting to control operations through such a system has been to place emphasis upon the ability of organizational units to expend not more than predetermined ceilings. The ability to live within such ceilings is not real gage of performance. In fact, it puts a premium on the ability to expend all allotments since the allotments for one year are used as one indication of the amounts required for the succeeding year. We believe that appropriated funds should be controlled under a system whereby there would be only one allotment to an organizational unit from each applicable appropriation. As a guide to judging performance, accounting systems should be developed within organizational units from which performance in terms of cost can be obtained. Costs of support activities in the Department of Defense have particular significance and to be valid must include, as they do not now, the costs of military

¹Ibid., p. 10.

²Ibid.

personnel employed in them. Cost information together with other performance yardsticks in terms of production or services rendered, should be used to measure performance.¹

The Commission further found that:

The lack of financial information has had its repercussions in the budget area in the form of congressional criticism of the financial information submitted in connection with appropriations requests. The military budget has been presented to the Congress in such a manner as to have resulted in congressional dissatisfaction both with its understandability and its factual support. This has been attributed in some quarters to the adoption of performance budgeting. However, the fault lies not with the performance-type budget but with the manner in which it has been administered.²

Accordingly, the Commission commented:

The adoption of an annual budget in terms of accrued expenditures would help to clarify the presently unsatisfactory military budget situation both as it concerns the Congress and the management of the Department of Defense. Such a budget would have the advantage of directing attention to costs.³

The Commission then made a series of major recommendations for changes in accounting and budgeting procedures. The following are considered pertinent to this paper:

Recommendation No. 5

That the basic policy decisions upon which budget determinations rest, particularly in the Department of Defense, be made as early in the budget preparation period as possible.

Recommendation No. 6

That agency budget presentations be made less detailed and be directed to a greater degree to policy considerations and to the scope and costs of major programs.⁴

¹ Ibid., p. 82.

² Ibid.

³ Ibid.

⁴ Ibid., p. 3.

Recommendation No. 7

That the present overly detailed budget estimating at agency subordinate levels be replaced to the fullest extent possible by centralized cost estimating at higher levels.

Recommendation No. 8

That the executive budget continue to be based upon functions, activities, and projects but be redesignated as a "program budget." The program budget should be supported by information of program costs and accomplishments and by a review of performance by organizational units where they do not coincide with program budget classifications.

Recommendation No. 9

That the agencies take further steps to synchronize their organization structures, budget program classifications, and accounting systems.

Recommendation No. 10

That executive agency budgets be formulated and administered on a cost basis.

Recommendation No. 11

That the executive budget and congressional appropriations be in terms of estimated annual accrued expenditures--namely, charges for the costs of goods and services estimated to be received.

Recommendation No. 14

That for management purposes, cost-based operating budgets be used to determine fund allocations within the agencies, such budgets to be supplemented by periodic reports on performance.

Recommendation No. 21

That Government accounts be kept on the accrual basis to show currently, completely, and clearly all resources and liabilities and the costs of operations. Furthermore, agency budgeting and financial reporting should be developed from such accrual accounting.¹

¹Ibid., pp. 3-5.

Recommendation No. 1

That the present report be adopted by the Commission and that the Commission be authorized to take such action as may be deemed appropriate in the premises.

Recommendation No. 2

That the Commission be authorized to take such action as may be deemed appropriate in the premises, and that the Commission be authorized to take such action as may be deemed appropriate in the premises, and that the Commission be authorized to take such action as may be deemed appropriate in the premises.

Recommendation No. 3

That the Commission be authorized to take such action as may be deemed appropriate in the premises, and that the Commission be authorized to take such action as may be deemed appropriate in the premises.

Recommendation No. 4

That the Commission be authorized to take such action as may be deemed appropriate in the premises, and that the Commission be authorized to take such action as may be deemed appropriate in the premises.

Recommendation No. 5

That the Commission be authorized to take such action as may be deemed appropriate in the premises, and that the Commission be authorized to take such action as may be deemed appropriate in the premises.

Recommendation No. 6

That the Commission be authorized to take such action as may be deemed appropriate in the premises, and that the Commission be authorized to take such action as may be deemed appropriate in the premises.

Recommendation No. 7

That the Commission be authorized to take such action as may be deemed appropriate in the premises, and that the Commission be authorized to take such action as may be deemed appropriate in the premises.

Recommendation No. 22

That, as a general policy, reliance be placed upon appropriate accrual and cost accounting techniques as a primary means for aiding the effective management of Government activities. The manner and extent to which funding devices are employed should be determined within the framework of the accounting systems so established.

Recommendation No. 23

That the allotment system be simplified. As an objective each operating unit should be financed from a single allotment for each appropriation involved in its operations.

Recommendation No. 24

That in the Department of Defense the accounting procedures be revised to include military pay as an element of cost of support activities of an administrative or service nature.

Recommendation No. 30

That the comptrollers in the military departments be responsible only to the Secretary, or a designated Assistant Secretary, and that concurrent responsibility to a Chief of Staff or equivalent be discontinued.¹

The approved recommendations of the Second Hoover Commission providing for improvements in budgeting, accounting, and appropriation procedures were enacted by Public Law 84-863, approved on August 1, 1956. Section 2 of that Act directs:

(a) The head of each executive agency shall . . . take whatever action may be necessary to achieve . . . (1) consistency in accounting and budget classifications, (2) synchronization between accounting and budget classifications and organizational structure, and (3) support of the budget justifications by information on performance and program costs by organizational units.

.....
(c) As soon as practicable after the date of enactment of this sub-section, the head of each executive agency shall, in accordance with principles and standards prescribed by the Comptroller General,

¹Ibid., pp. 5-6.

cause the accounts of such agency to be maintained on an accrual basis to show the resources, liabilities, and costs of operations of such agency with a view to facilitating the preparation of cost-based budgets. . . .¹

Comparing the recommendations of the First and Second Hoover Commissions provides an interesting contrast. The First Hoover Commission laid the conceptual foundation for performance budgeting and comptrollership within the Department of Defense and the extension of working-capital funds. In this manner, the Commission concerned itself with the establishment of general policies upon which budgetary reform could be built. The Second Hoover Commission reinforced the need for these improvements; however, the Commission proceeded further by recommending explicit budgetary, accounting, and comptrollership procedural reforms requisite to accomplishment of objectives. Commission recommendations cited previously furnish abundant examples. Of particular pertinence to this paper are recommendations that specify that: (1) The performance budget will be redesignated as a "program budget" (Recommendation No. 8); (2) cost-based operating budgets will be used to determine fund allocations (Recommendation No. 14); (3) accounts will be kept on the accrual basis to show currently, completely, and clearly all resources and liabilities and costs of operations (Recommendation No. 21); and (4) reliance will be placed upon appropriate accrual and cost-accounting techniques as a primary means for aiding effective management (Recommendation No. 22).

¹U. S. , Congress, An Act To Improve Governmental Budgeting and Accounting Methods and Procedures, Public Law 863, 84th Cong., 2d Sess., 1956, p. 1.

Assistant Secretary of Defense (Comptroller)
Wilfred J. McNeil

To reflect the contributions of Secretary McNeil to Resource Management Systems, we must regress in time. Mr. McNeil served as Special Assistant to the Secretary of Defense from 1947 to 1949. In 1949 and pursuant to the National Security Amendments of 1949, Mr. McNeil was appointed as Assistant Secretary of Defense and Comptroller; consequently he was the first person to occupy the position of Comptroller of the Department of Defense. Secretary McNeil served as Comptroller from 1949 to 1959 under both the Truman and Eisenhower administrations. As Senator Jackson once observed, Mr. McNeil, perhaps more than anyone else, was entitled to be called "Mr. Pentagon."¹

Serving as Special Assistant to the Secretary of Defense when the First Hoover Commission was convening, Mr. McNeil collaborated closely with Commission members in formulating recommendations relative to Defense Department budgetary and comptrollership policies and procedures. Subsequently, the draft bill for National Security Amendments of 1949 was prepared in Mr. McNeil's office with the assistance of Mr. Ferdinand Eberstadt, a Commission member.² Following passage of the 1949 Act, Mr. McNeil was appointed Comptroller of the Defense Department. In

¹U.S., Congress, Senate, Subcommittee of the Committee on Government Operations, Hearings, The Budget and Policy Process, 87th Cong., 1st Sess., 1961, p. 1057.

²Frederick C. Mosher, Program Budgeting: Theory and Practice (New York: American Book-Stratford Press, Inc., 1954), p. 220.

effect, he had written his own position description with its attendant duties and responsibilities.

As Comptroller, Secretary McNeil vigorously pursued the implementation of the provisions of the National Security Act Amendments of 1949, bearing in mind the intent of the First Hoover Commission. Mr. McNeil's accomplishments were numerous; significant achievements include: (1) the establishment of the comptroller organization within the Defense Department and the armed forces with clearly defined duties and authority lines; (2) greatly expanded use of working-capital funds within the armed forces; and (3) standardized budgetary and accounting forms and procedures used by the armed forces. Secretary McNeil's most notable achievement was the simplification of budgetary categories. From the 200 to 300 categories then in use by the various armed forces, Mr. McNeil succeeded in reducing the number to five principal titles: (1) Military Personnel; (2) Operation and Maintenance; (3) Procurement; (4) Research, Development, Test, and Evaluation; and (5) Military Construction.¹

By itself, this latter achievement constituted a giant step forward in laying the foundation for Resource Management Systems. These five categories provided the Defense Department and the Congress with an excellent perspective of the "big picture." As will be noted in the next section, Mr. McNeil's successor, Mr. Charles J. Hitch, built upon these firm foundations established by Secretary McNeil.

¹Hearings, The Budget and Policy Process, op. cit., p. 1005.

Assistant Secretary of Defense (Comptroller)
Charles J. Hitch

Mr. Hitch was appointed Assistant Secretary of Defense and Comptroller in 1961 and served in that capacity until 1965. Prior to his assignment in the Defense Department, he served for thirteen years as Chief of the Economics Division of the RAND Corporation. While employed by the RAND Corporation, he co-authored a book with Roland N. McKean, entitled The Economics of Defense in the Nuclear Age. This book was published ten months prior to Mr. Hitch's assumption of duties as Comptroller of the Defense Department; accordingly, the book reflects much of the economic philosophy, aims, and methodology of the Program Budget Control System which Mr. Hitch later implemented with the Department of Defense.

In developing the methodology for financial management, Mr. Hitch expresses a "way of looking" at the defense problems as economic problems in terms of efficient allocations and use of resources. With this approach, he feels that more than just a solution to the defense problem will be accomplished. In his opinion, the economic approach will do much to reconcile the apparent conflict of views between those officers and officials responsible for defense planning and operations and those officials and congressmen whose primary interest is in economy.¹

¹ Charles J. Hitch and Roland N. McKean, The Economics of Defense in the Nuclear Age (Cambridge: Harvard University Press, 1960), Preface.

Basic to his philosophical theme is that national security is one big problem of economics. The allocation of resources to satisfy the national wants for defense, social security, higher standards of living, and others puts the defense requirements in competition with other needs. Before a solution to the problem of allocating national resources among competing needs can be found, the problem must be broken down into manageable pieces. Then the principles of economic analysis coupled with mature judgment can be applied to their solution. However, Mr. Hitch hastens to add that application of economic analysis techniques, or economizing, to problems does not mean skimping on important projects or expanding huge amounts of money on others regardless of cost. Economizing does mean trying to make the most efficient use of the resources available. Further, he observes that the job of economizing is not the sole responsibility of the budgeteers or comptrollers but is implicit in the total decision-making process.¹

During July, 1961, Secretary Hitch testified before Senator Jackson's Subcommittee on National Policy Machinery relative to Defense Department progress in the planning-programming-budgeting process. Mr. Hitch complimented his predecessor, Mr. McNeil, for budgetary reforms achieved to date and indicated that those budgetary reforms constituted a firm foundation for further progress. He noted that the annual defense budget, the means for allocation of resources, was being submitted

¹ Ibid., pp. 2-4.

by the functional categories of military personnel, operation and maintenance, procurement, research and development, and military construction. Function-category construction and submission of the annual budget was described as the greatest weakness of the financial management system for these reasons:

1. The technical complexity, combat power, and enormous cost of modern weapons had placed a premium on the sound choice of weapons systems as related to tasks and missions and our national security objectives.
2. The method of budget submission did not facilitate the relating of costs to weapons systems, tasks, and missions.
3. Its time horizon was too limited.
4. It did not disclose the full-phased costs of proposed programs.
5. It did not provide the data needed to assess the costs and effectiveness of alternative programs.

Mr. Hitch observed that this information was precisely what the top management of the Department of Defense required to make sound decisions. Further, the financial management system should, but did not, provide weapon system cost data for decision making. Finally, Mr. Hitch emphasized that the entire planning-programming-budgeting system should furnish top management data in terms of programs, since it was in program terms that major decisions were made.¹ He visualized the implementation of the

¹Hearings, The Budget and Policy Process, op. cit., pp. 1005-1006.

Program Budget Control System as a three-phase operation:

1. Review of requirements.
2. Formulation and review of programs extending several years into the future.
3. Development of annual budget estimates.¹

At the time of Mr. Hitch's testimony, phases one and two requirements were being compiled by the armed forces. Mr. Hitch estimated that the entire program-budgeting system would be operable within one to two years.² When questioned by Senator Jackson concerning the budget format to be submitted to Congress, Mr. Hitch advised that the budget would be furnished both by resource categories and by programs.³ Dual budget format submissions to Congress continue to the present.

Before proceeding with this discussion, the following definitions are furnished as used by the Department of Defense Programming System:

1. Program Element--an integrated activity; an identifiable military capability; a force, support activity, research activity, etc., comprising a combination of men, equipment, and facilities.
2. Programs--a combination of program elements designed for the accomplishment of a definite objective or plan which is specified as to the time phasing of what is to be done and the means proposed for its accomplishment. The components of the DoD Programming System are the numbered programs in the FYFS&FP.
3. Programming--the process of establishing and maintaining a program.

¹Ibid.

²Ibid., p. 1011.

³Ibid., p. 1019.

the following conditions shall be observed:

1. The applicant shall be a citizen of the United States.

2. The applicant shall be at least 21 years of age at the time of application.

3. The applicant shall be a resident of the United States.

4. The applicant shall be a native-born American citizen.

5. The applicant shall be a member of the United States Army, Navy, Air Force, or Marine Corps.

6. The applicant shall be a member of the United States Coast Guard or the United States Customs Service.

7. The applicant shall be a member of the United States Postal Service or the United States Fish and Wildlife Service.

8. The applicant shall be a member of the United States Forest Service or the United States Bureau of Land Management.

9. The applicant shall be a member of the United States Department of the Interior or the United States Department of Agriculture.

10. The applicant shall be a member of the United States Department of Commerce or the United States Department of Education.

11. The applicant shall be a member of the United States Department of Health, Education and Welfare or the United States Department of Justice.

12. The applicant shall be a member of the United States Department of Labor or the United States Department of State.

13. The applicant shall be a member of the United States Department of Transportation or the United States Department of the Treasury.

14. The applicant shall be a member of the United States Department of Veterans Affairs or the United States Department of Housing and Urban Development.

15. The applicant shall be a member of the United States Department of Social Security or the United States Department of the Environment.

16. The applicant shall be a member of the United States Department of Energy or the United States Department of the Interior.

17. The applicant shall be a member of the United States Department of the Army or the United States Department of the Navy.

18. The applicant shall be a member of the United States Department of the Air Force or the United States Department of the Marine Corps.

19. The applicant shall be a member of the United States Department of the Coast Guard or the United States Department of the Customs Service.

4. DoD Programming System--the methods and procedures for the establishment, maintenance and revision of the FYFS&FP.

5. The Five-Year Force Structure and Financial Program (FYFS&FP)¹--The summation of the approved programs of the DoD components.

6. Program Cost Categories:

a. Research and Development--those program costs primarily associated with research and development efforts, including the development of a new or improved capability to the point where it is ready for operational use. These costs include equipment costs funded under the RDT&D appropriations and related Military Construction appropriation costs. They exclude costs which appear in the Military Personnel, Operation and Maintenance, and Procurement appropriations.

b. Investment--those program costs required beyond the development phase to introduce into operational use a new capability, to procure initial, additional or replacement equipment for operational forces or to provide for major modifications of an existing capability. They include Procurement appropriation costs except those associated with the operating category defined below, and all Military Construction appropriation costs except those associated with research and development. They exclude RDT&E, Military Personnel, and Operation and Maintenance appropriation costs.

c. Operating--those program costs necessary to operate and maintain the capability. These costs include Military Personnel, Operation and Maintenance, and recurring Procurement appropriation costs (such as replenishment spares). They exclude RDT&E and Military Construction appropriation costs.²

Under the capable supervision of Secretary Hitch, the Defense Department formulated the Five-Year Force Structure and Financial Program in time for preparation and submission in the Fiscal Year 1963 Budget.

¹Now dichotomized into the Five-Year Defense Plan and the Five-Year Financial Plan.

²U.S., Department of Defense, Office of the Assistant Secretary of Defense (Comptroller), DoD Programming System, Department of Defense Directive 7045.1, October 30, 1964, pp. 2-3.

The Five-Year Force Structure and Financial Program contained nine numbered programs:

1. Strategic Retaliatory Forces
2. Continental Air and Missile Defense Forces
3. General Purpose Forces (conventional)
4. Airlift and Sealift Forces
5. Reserve and Guard Forces
6. Research and Development
7. General Support
8. Civil Defense
9. Military Assistance.¹

The Five-Year Force Structure and Financial Program represented decisions by the Secretary of Defense. Only approved programs, fully costed in terms of research and development costs, investment costs, and projected operating costs for a period of five years went into the Five-Year Force Structure and Financial Program.² Each program consisted then, and does today, of a logical grouping of program elements with related missions or tasks regardless of service affiliation. For example, a Marine division and an Army Infantry division constitute program elements under the General Purpose Forces Program.

¹U.S., Department of the Navy, Office of the Comptroller, Program Change Control System in the Department of the Navy, NAVEXOS P-2416, August, 1962, Appendix C, Chapter II, pp. 3-4.

²Ibid., Chapter IV, p. 1.

Changes to programs and program elements occur. Under current procedures, changes require Secretary of Defense approval. When approved, changes are entered into the Five-Year Force Structure and Financial Program and other programs or program elements are adjusted accordingly.¹

Objectives of the Department of Defense Programming System at its inception were:

1. To plan programs around major missions rather than services.
2. To relate resources--manpower, materiel, equipment, and the like--to military output.
3. To coordinate long-range planning with budgeting.
4. To appraise programs on a continuous basis.
5. To control approved programs through timely progress reports.
6. To provide a capability for making cost-effectiveness studies of alternative force structures.
7. To integrate Office of the Secretary of Defense information systems in order to avoid duplication.²

With minor supplementation, these objectives remain as valid today as when formulated.

How does programming relate to planning? Planning establishes goals and objectives, the strategies and tactics designed to attain them, and a statement of requirements, such as forces and weapons systems necessary to implement the strategies. Programming provides the next phase or level of detail. Programming translates the plans into more specific elements, projects, or decision units, assigns time-phased schedules to these

¹ Department of Defense, DoD Programming System, op. cit., p. 5.

² Department of the Navy, Program Change Control System . . ., op. cit., p. iii.

elements, and determines specific resource requirements (dollars, manpower, equipment, and materiel) for each element, for each year.¹

How does programming relate to budgeting? The program extends five years beyond the current year and reflects the dollars required for each of the years. Thus, the approved program provides a sound and rational basis for the development of the budget estimates. Various decisions are made during the budget review process which refine or modify programs. These are reflected back into the program data and the implications projected over the five-year period. Also, during the current year, budgetary reprogramming procedures are used to shift funds between programs.²

Establishment of the Programming System by Mr. Hitch constituted a major budgetary reform and resulted in vastly improving the planning-programming-budgeting process within the Department of Defense. The Programming System provides the Secretary of Defense with a tool with which he can consider alternative courses of action and make rational decisions based upon the best information available. Further, the Programming System furnishes a vehicle for comparing the costs and benefits to be derived from planned actions. Finally, the Programming System constitutes a logical linkage among the planning, programming, and budgeting functions.

¹Bert Mogin, Director, Financial Management Education and Information, Office of the Assistant Secretary of Defense (Comptroller). Presentation for the Navy Graduate Financial Management Program at The George Washington University, November 2, 1966.

²Ibid.

Assistant Secretary of Defense (Comptroller)
Robert N. Anthony

Dr. Robert N. Anthony was appointed Assistant Secretary of Defense and Comptroller during the summer of 1965 and currently occupies that position. Before becoming the Comptroller of the Defense Department, he was a Ross Graham Walker Professor of Management Controls of the Graduate School of Business Administration at Harvard University.

Early in his tenure, Secretary Anthony was requested by Secretary of Defense McNamara to make major changes in the programming, budgeting, and accounting systems.¹ The accomplishments of Mr. McNeil and Mr. Hitch were appreciated fully. In particular, the Five-Year Defense Program (formerly a part of the Five-Year Force Structure and Financial Program), as formulated under the supervision of Mr. Hitch, was a prerequisite to the improvement of resource management systems. The Five-Year Defense Plan, which breaks down into programs and program elements, provides an orderly program structure against which to budget, account, and measure performance. However, Secretary Anthony noted that the installation of the program structure in the Defense Department was such a huge task that Mr. Hitch had decided to devote his full attention to it. The integration of budgeting and accounting procedures into the programming process would have to be done later. It is this part of the task that Secretary Anthony is now undertaking in his implementation of Resource

¹Anthony, "Closing the Loop," op. cit.

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Management Systems; or, as expressed by him, he is "closing the loop."¹

Since no comprehensive effort had been made to relate these individual management systems to each other and to the over-all resource management needs of the Defense Department, numerous management systems of varying degrees of usefulness developed, with resultant overlapping, gaps, and conflicts among them.² An explicit requirement existed to integrate the various programming, budgeting, and accounting systems utilized throughout the Department of Defense into one uniform management system. From the above, it is apparent that the existing systems were deficient in the element of control. This thought must have occurred to Secretary Anthony when he commented briefly about the need for strengthening the current "management control systems."³ However, recognizing the negative connotation implicit in the word "control," he discarded it and the phrase "management control systems" in favor of the term "Resource Management Systems." He noted that the phrases have essentially the same meaning, but the phrase "Resource Management Systems" appeared more acceptable. At this early development stage, Secretary Anthony defined Resource Management Systems as:

. . . a system that aids managers at all levels in their function of assuring that resources are obtained and used effectively and efficiently in the accomplishment of an organization's objectives.⁴

¹Ibid.

²Department of Defense, A Primer on Project PRIME, op. cit., pp. 3-4.

³Anthony, "What's Ahead," op. cit., p. 3. ⁴Ibid., p. 4.

It is interesting to note that the above definition approximates Secretary Anthony's definition of "management control" contained in his book Management Accounting. A comprehensive definition of Resource Management Systems and the approved concepts governing the program to improve Resource Management Systems within the Department of Defense were provided in Chapter I; therefore, citation here would be repetitious.

In describing the magnitude of the task which lay before him, Secretary Anthony indicated that Resource Management Systems encompassed the following Department of Defense systems:

1. Programming and budgeting systems.
2. Management of operating activities.
3. Inventory of material.
4. Management of capital asset acquisitions and utilization.
5. Management reporting systems of all types.¹

Further, he envisioned that the implementation of Resource Management Systems would require the following initial steps:

1. Revision of the program structure. This does not involve a major revision, but it consists primarily of regrouping and redefining program elements to permit increased usefulness.
2. Changes in the accounting systems. Accounting systems will be changed and made uniform so that account structures will be the same for programming, budgeting, and accounting.

¹Ibid.

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3. Military personnel costs will be charged to organization units.
4. Purify the appropriation definitions so as to include only items of an expense nature in the operating appropriation.
5. Extend the use of working-capital funds to encompass all items of an expense nature. This involves (1) the realignment of items between operation and maintenance, and procurement appropriations and (2) increasing the number of working-capital funds serving operational units.¹

The above initial steps apply primarily to the programming and budgeting and operating systems; thus, they have a priority implementation date of July 1, 1967. Collectively they are known as Project PRIME. Appendix A furnishes Department of Defense policy guidance applicable to the systems for inventory management, capital acquisitions, and management reporting systems, as well as those mentioned above. Perusal of this Defense directive imparts an appreciation of the impact that Resource Management Systems will have on the Department of Defense and the various armed services.

This chapter has attempted to trace the evolution of the Resource Management System over the past twenty years. Chapter III will describe financial management as it is performed in the U. S. Marine Corps division.

¹Anthony, "Closing the Loop," op. cit., pp. 5-6.

CHAPTER III

FINANCIAL MANAGEMENT IN THE MARINE DIVISION

To permit evaluation of the impact of Project PRIME on the U. S. Marine Corps division, a basis for comparison must be established. The purpose of this chapter is to establish that basis. Multifarious facets of the division's current financial management system will be described, including: (1) financial management responsibilities; (2) functions and organization of the Office of the Comptroller of the Marine Division; (3) relationship of the comptroller to other division staff officers; (4) source of the division's funds; (5) the fiscal cycle; (6) accounting procedures; and (7) reporting requirements. This paper is concerned primarily with the management of funds appropriated by the U. S. Congress. However, it should be noted that the division accounts for non-appropriated funds--i. e., post exchange and special services funds--and for property. The comptroller, who is the principal division financial officer, exercises general staff cognizance over non-appropriated funds procedures, but management of the funds is vested in other staff officers. Supervision of property accounting is exercised jointly by the general staff officer for logistics (G-4) and the division supply officer. Property accounting per se concerns the comptroller only in so far as financial transactions affect appropriated funds account

balances. Hence, the comptroller's principal financial management interests center on the two major phases of the appropriated funds budgetary process: formulation and execution.

Formulation consists of the estimation, preparation, and approval of fund requests; execution consists of the allocation, receipt, expenditure, accounting, and reporting of funds.¹

It is within this context that this chapter is presented. To assist the reader, definitions for commonly used budgetary terms are furnished in Appendix B. Material for this chapter must, of necessity, be drawn from regulations, directives, and instructional material relative to financial management within the Marine Corps and the naval service at large.

Responsibilities

Responsibilities of Commanders

Command responsibility. --Command responsibility is that type of responsibility which parallels the other operational and administrative duties of a commander: the responsibility for the control and administration of funds allocated to his command to perform its mission.

Legal responsibility. --Legal responsibility is that responsibility not to overcommit, overobligate, or overexpend appropriated funds. This responsibility is placed on all commanders who receive an allotment or

¹U. S. Marine Corps, Budget Formulation and Execution, MCI 34.6b1 (Washington: Marine Corps Institute, 1965), Chapter I, p. 6.

suballotment of appropriated funds, and it is a specific legal constraint set forth in Section 3679, 31 U.S. Code 665, a Federal statute. This responsibility cannot be delegated, in whole or in part, within the command. Any effort to delegate all or part of this responsibility, whether by oral or written means, is a violation of regulations which have established the responsibilities of commanding officers; such regulations are contained in the Marine Corps Manual and Navy Regulations. Accordingly, the commanding officer of the activity is held personally responsible for acts within his command which cause an overobligation or overexpenditure of an allotment, whether the acts are his own or those of his subordinates. Since in most organizations, especially in larger ones, the commanding officer cannot maintain personal control over each act of his subordinates, it is important that he initiate necessary action to insure that his principal subordinates, those responsible for an entire function or project, are aware of his responsibilities.¹

Commanders receiving allotments. --Commanders receiving allotments have the following specific responsibilities, which are to:

1. Examine their unit's mission and assigned tasks to determine the most economical means by which they may be accomplished.
2. Prepare budget estimates setting forth the funds that will be required to accomplish their mission and assigned tasks.
3. Submit these budget estimates to the next higher echelon, accompanied by detailed justification, for incorporation into the Marine Corps budget request.
4. Prepare a financial plan for the use of funds that are allotted in response to the budget request.

¹Ibid., pp. 4-5.

5. Insure that funds are used in accordance with plans and directives of higher authority.

6. Insure that funds authorized are not overcommitted, over-obligated, or overexpended.

7. Maintain records reflecting the status and use of allotted funds, and to account to the Commandant of the Marine Corps for these funds.

8. Conduct a continuous internal review of fiscal operations.¹

Essentially, commanders receiving allotments and commanders receiving suballotments have the same responsibilities. Commanders receiving a suballotment have the same responsibility for the administration of the suballotment as if it were a primary allotment received directly from the Commandant of the Marine Corps; therefore, the commanders granting suballotments to subordinates are relieved of responsibility for any over-obligation and overexpenditure committed in connection with a suballotment.²

Subordinate commanders not allotted funds. -- Subordinate commanders, who have not been allotted funds but are directly responsible for functions resulting in the use of such funds, have the following responsibilities, which are to:

1. Determine their operational requirements, based on guidance received from the next higher echelon of command and on experience data accumulated over previous years.

2. Submit these requirements in the correct format and in such detail as is prescribed by the next higher echelon of command.

3. Conduct operations so as to remain within such administrative distribution of funds as may be made by the next higher echelon of command.

4. Maintain such memorandum records as may be required to insure that funds made available are not exceeded.

¹Ibid.

²Ibid., p. 5.

Responsibilities of Staff Officers

Assistant Chief of Staff, Comptroller. --Marine Corps Order

5450.2B, dated August 24, 1962, authorized certain major Marine Corps commands to establish the billet of Assistant Chief of Staff, Comptroller. A staff officer designated as the comptroller and having staff cognizance over those general staff duties pertaining to all financial management functions is assigned only to those commands where the magnitude of financial functions makes direct supervision by the commander impracticable.¹ For example, in the two Fleet Marine Force commands, budgeting, allotment accounting, and progress review and analysis are so complicated by suballotments as to make supervision by a staff officer necessary.

Having general staff status, the Assistant Chief of Staff, Comptroller, performs those duties pertaining to the broad areas of financial management, as follows:

1. Formulates the budget
2. Compares program performance with the financial plan.
3. Analyzes variances and determines required adjustments.
4. Exercises internal fiscal review and control.
5. Insures that assigned programs are executed effectively, efficiently, and economically.
6. Coordinates with comptrollers of other organizations.
7. Exercises operational control over the Comptroller organization.²

Other staff officers. --The duties of the other phases of financial management are purely technical in nature and are assigned on the basis of

¹U.S. Marine Corps, Marine Corps Commanders and Financial Management Manual, Marine Corps Order P7300.9A, 1965, p. 12.

²U.S. Marine Corps, Force Troops Financial Management Manual FTO P7000.2A (Camp Lejeune, N.C.), 1965, Chapter 2, p. 1.

the best qualified staff officers available to the commanding general.¹ For example, the post exchange officer manages post exchange funds, and the special services officer manages special services funds.

Financial management board. --A financial management board may be organized at the discretion of the commanding general. The board usually consists of the major general staff officers; its purpose is to provide closely coordinated staff solutions to financial problems. The functions of the Financial Management Board are to:

1. Provide budget guidance to the staff and unit commanders.
2. Review the command budget.
3. Recommend internal distribution of funds.
4. Advise the commanding general on financial management matters.²

Office of the Assistant Chief of Staff, Comptroller

Organization

The Comptroller Section of the Marine division is commanded by the Assistant Chief of Staff, Comptroller, whose responsibilities have been cited previously. The Comptroller Section consists of the following functional units: (1) Executive unit; (2) Budgeting unit; (3) Fiscal unit; and (4) Disbursing unit.

¹Marine Corps, Marine Corps Commanders and Financial Management Manual, op. cit., p. 12.

²U.S. Marine Corps, Standing Operating Procedure for Financial Management, DivO P7000. 1A (Camp Lejeune, N.C.: Headquarters, Second Marine Division, 1963), Chapter 2, p. 2.

Functions

Executive unit. --The Executive unit is headed by the Comptroller Chief who is usually a master sergeant. The Executive unit provides administrative support for the Comptroller Section.

Budgeting unit. --The Budgeting unit is headed by the Assistant Comptroller/Budgeting Officer. The functions of this unit encompass the following:

1. Provide guidance and instructions for budget preparation.
2. Review the requirements and justifications of the various programs of the command.
3. Compile the command's annual budget.
4. Recommend distribution of appropriated funds to planning estimate holders and recommend revisions as required.
5. Prepare directives and instructions to ensure compliance with policies promulgated by proper authority.
6. Analyze variances from the budget plan.
7. Recommend action which could result in a more effective, efficient, and economical operation.
8. Initiate action to adjust financial plan to available funds.
9. Prepare request for additional funds, when required.
10. Develop criteria for the collection and coordination of statistical data.
11. Supervise the preparation of statistical reports.¹

Fiscal unit. --The Fiscal unit is headed by the Division Fiscal Officer. Its functions encompass the following:

1. Maintain required records, including records of obligations and expenditures against funds allotted or suballotted to the Commanding General.
2. Prepare required accounting reports.²

¹ Marine Corps, Force Troops Financial Management Manual, op. cit., Chapter 2, p. 2.

² Ibid., pp. 2-3.

1. The Commission

2. The Commission is composed of the following members:

3. The Commission is empowered to investigate and report on the following matters:

4. The Commission is empowered to recommend the following measures:

5. The Commission is empowered to recommend the following measures:

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Disbursing unit. --The Disbursing unit is headed by the Division

Disbursing Officer. Its functions are to:

1. Provide safety for public funds collected until the funds are ordered by proper authority of the Marine Corps to be transferred or paid out, and when such order for transfer or payment is received, effect the transaction directed.
2. Perform other duties as fiscal agents of the Marine Corps which may be imposed by law or regulations of the Marine Corps made in conformity to law.
3. Prepare disbursing reports and returns.
4. Pay military personnel.
5. Pay and distribute public vouchers.
6. Receive collections of Government funds.¹

Source of Funds

Funds for the operation of the Marine Corps are contained in the Appropriation Act by the Congress of the United States. The Act in itself does not make the funds available for use by the Marine Corps. Administrative authority of the Bureau of the Budget must be obtained through the channels of the Department of the Navy and the Department of Defense prior to use by the Marine Corps. The first step is securing, through channels, the Bureau of the Budget approval of the request from the Commandant of the Marine Corps for apportionment of the appropriation by fiscal quarters. The second step is securing an approval from the Comptroller of the Navy for an allocation of the approved apportionment by budget activities (sub-heads). Upon completion of the foregoing processes, no further authority external to the Marine Corps is required prior to making funds available

¹Ibid.

to field commands.¹

The Marine Corps budget submission to the Congress is based upon the estimated requirements of personnel and of types and quantities of material, supplies, and services, and other support necessary to attain the approved financial program objectives. The dollar estimates for the foregoing are compiled from cost history and known future requirements from field commands and Headquarters, Marine Corps, program requirements. The Operation and Maintenance budget discussed below has particular importance both at local commands and at Headquarters, Marine Corps, as it becomes part of the over-all Marine Corps budget and is the basis upon which Headquarters makes funds available to field commands.² In any event, the primary sources of the funds required for support of the Marine Corps are the five appropriations sponsored by and granted directly for the Marine Corps.

Military Personnel, Marine Corps. -- This appropriation provides funds to finance costs directly attributable to active duty personnel. These costs include pay, allowances, individual clothing, subsistence, and permanent change of station travel. The fiscal accounting for the funds under Military Personnel, Marine Corps, is performed by Headquarters, Marine Corps.

¹U.S. Marine Corps, Base Financial Management Manual, Base Order P7000.1B (Camp Lejeune, N.C.: Headquarters, Marine Corps Base, 1965), Chapter 2, pp. 2-3.

²Ibid.

Reserve Personnel, Marine Corps. --This appropriation provides funds to finance those costs directly attributable to personnel of the Marine Corps Reserve and to the personnel included in the Officer Candidate Program. Again, the fiscal accounting for the funds of this appropriation is performed by Headquarters, Marine Corps.

Procurement, Marine Corps. --This appropriation finances the purchase of major items of equipment and ammunition for the Marine Corps. The major items of equipment purchased with funds from this appropriation are classed as investment items and include such things as rifles, tanks, trucks, radios, and guided missiles equipment. While ammunition is not an investment-type item, it is purchased with funds from this appropriation and is therefore carried in the inventories of the Appropriation Stores Account and is issued to commanders as an Appropriation Stores Account item. Commanders receive Appropriation Stores Account materials and supplies without a charge to their allotments, as these are items that do not meet the criteria for inclusion in the Marine Corps Stock Fund Account, to be described more fully below. However, commanders may be required by budget guidance or separate directives to submit estimated requirements for Appropriation Stores Account materiel.¹

Like the two personnel appropriations, Procurement, Marine Corps, is administered at Headquarters, Marine Corps, with a few exceptions. One exception, for example, is the Commanding General, Fleet

¹Ibid.

Marine Force, Pacific, who receives an allotment of funds for the procurement of Army-common items, such as ammunition and vehicles, for the First and Third Marine Divisions, deployed.¹

Marine Corps Stock Fund. --This appropriation finances the procurement and inventories of standard items of material, supplies, subsistence items, fuel items, maintenance parts and assemblies, and minor items of equipment of a consumable nature for which there is a recurring demand. Stock Fund items are classified as cost-type items. Stock Fund sales are chargeable to the allotted funds of the commander to whom the items were sold.

The Marine Corps Stock Fund is a revolving fund for which operating capital was initially established from funds appropriated by the Congress and the capitalization of existing inventories of items taken into the Stock Fund. This operating capital is sustained by funds transferred to the Stock Fund in payment for materiel sold to holders of allotments from other appropriations.

Individual items in the Marine Corps Stock Fund account are sold to allotment holders at a single standard price which includes the following elements of cost:

1. Current market or production cost.
2. Transportation cost from manufacturer to first point of destination within the Stock Fund distribution system.

¹Marine Corps, Budget Formulation and Execution, op. cit., Chapter 2, p. 5.

3. A surcharge to compensate the Stock Fund for all foreseeable net losses and authorized expenses connected with stocking the item.¹

Marine Corps Stock Fund allotments are granted to certain field commands authorized to carry Stock Fund stores--i. e., Marine Corps Supply Centers and stock accounts. These allotments are granted for the following purposes:

1. To provide funds for purchasing material to meet immediate needs pending receipt of items through normal purchase channels.

2. To purchase stocks of items which are decontrolled for procurement.

3. To finance the operation of commissary stores.²

Operation and Maintenance, Marine Corps.--Finally, the Operation and Maintenance Appropriation finances costs of the operation and maintenance of the Marine Corps, including the operation, maintenance, and furnishing of Capehard and Wherry Housing used as public quarters. This appropriation is the one with which field commanders are primarily concerned. Budgets are formulated locally and forwarded to higher authority for incorporation into the Marine Corps Budget. When budgets are approved, funds are furnished commanders in the form of allotments or suballotments of funds. With allotted funds, commanders purchase Stock Fund items, pay civilian payrolls, purchase utilities, purchase on the open market as

¹ Marine Corps, Marine Corps Commanders and Financial Management Manual, op. cit., p. 2.

² Marine Corps, Budget Formulation and Execution, op. cit., Chapter 2, p. 7.

authorized, and finance temporary additional duty costs.

As will be recalled from Chapter II, Title IV of the National Security Act of 1947, as amended, required that:

The budget estimates of the Department of Defense be prepared, presented and justified, and programs administered, so as to account for and report the cost of performance of readily identifiable functional programs and activities, i. e., performance budgeting.

As a result of the requirement to operate on a performance-type budget, the Marine Corps, in 1954, was required to restructure the then "Marine Corps Troops and Facilities Appropriation" into the currently titled Operation and Maintenance, Marine Corps, Appropriation.

The Operation and Maintenance Appropriation is an annual appropriation which means that Congress must authorize funds each year. A complex appropriation, Operation and Maintenance is subdivided into budget activities and accounting projects. Budget activities are major subdivisions such as Training and Operations, Depot Supply System, Transportation of Things, Marine Corps Reserve Training, Aviation Reserve Training, and Cataloging. Accounting projects are subdivisions of budget activities; for example, accounting projects under the Budget Activity Training and Operations, include Project 11 (Unit Purchase and Maintenance of Materiel and Operating Expense), Project 17 (Spare Parts Support for New Equipment) and others. Usually, a major command will receive funds under from one to three accounting projects. Funds for each accounting project are received in the form of allotments; each allotment of funds requires the

establishment of a separate ledger account. However, for simplicity purposes, the Commandant of the Marine Corps strives to limit fund authorizations to one fund allotment under one accounting project for each command. For example, the bulk of the division's funds are furnished from Project 11, Unit Purchase and Maintenance of Materiel and Operating Expenses. Funds furnished from other projects are relatively insignificant.

Allotments and Suballotments of Funds

As noted previously, upon completion of the allocation process, Headquarters, Marine Corps, requires no further external authority to make funds available to field commanders. Consequently, Headquarters, Marine Corps, grants funds to field commanders in the form of allotments. Allotments are the most common type of fund authorizations issued to field commands. The granting of an allotment reduces the available balance of the appropriation but does not constitute an obligation of funds. Allotments issued to field commands are commonly referred to as "field allotments." Allotments and suballotments are fund authorizations that are broken down into sums authorized for obligation each fiscal quarter. Quarterly authorized sums are not necessarily equal in amount but are based on a percentage of the total as requested and justified by the receiving commander. Unobligated quarterly balances may be carried over during the first three fiscal quarters; at the end of the fourth quarter, of course, obligational authority ends.¹

¹Ibid., Chapter 4, p. 9.

In the cases of the two Fleet Marine Forces, Headquarters, Marine Corps, issues allotments of funds to the Commanding Generals, Fleet Marine Force, Atlantic and Pacific, respectively. In turn, the Force commanders issue suballotments of funds to major unit commanders, i. e., divisions and wings. The issuance of a suballotment by the Force commander to a subordinate commander, e. g., the division commander, reduces the available balance of the allotment but does not constitute an obligation of funds. A commander receiving a suballotment of funds has the same responsibility for the administration of the suballotment as if it were a primary allotment received directly from the Commandant of the Marine Corps. For this reason, the commander granting the suballotment is relieved of the responsibility for any overobligation or overexpenditure of funds in connection with the suballotment. As a consequence of this procedure, suballotment holders in Fleet Marine Force, Atlantic, for example, submit monthly allotment status reports directly to the Commandant of the Marine Corps with copies of the report to the Force Commander. Formal accounting, accountability, and reporting to higher authority terminate at the suballotment level; for purposes of this paper, formal accounting and reporting for funds end at the division level. Further internal distribution of funds within the division is usually accomplished by issuing planning estimates to subordinate unit commanders and certain division staff officers.

Planning Estimate

For purposes of this discussion, the planning estimate is defined as an administrative means of subdividing a suballotment of funds issued to an operating component of an activity for management by that component. The planning estimate holder is authorized to incur obligations up to the amount specified in the authorizing document, although he does not assume legal responsibility within the provisions of Section 3679, 31 U.S. Code 665, for overobligation. The planning estimate holder is responsible to the grantor, as subordinate to superior, to insure that the amount specified in the planning estimate is not exceeded.¹ The planning estimate holder maintains informal records, also referred to as memorandum records, which generally reflect the authorized amount of the planning estimate, charges, and the available balance. This type of bookkeeping closely parallels that of a person who maintains a checking account with a commercial bank. The individual writes checks and reduces the balance in his checkbook. The bank performs the formal accounting for the checking account and furnishes monthly account statements. On the basis of these monthly statements, the depositor reconciles the checking account balance. In like manner, the planning estimate holder initiates requisitions for supplies and services which reduce the available balance of the planning estimate. Fiscal purpose cards and documents flow back to the suballotment holder (Fiscal Unit, Division Comptroller's Office); the suballotment holder furnishes periodic

¹Ibid., Chapter 1, p. 10.

balance statements, usually semi-monthly or monthly, to the planning estimate holder for record reconciliation purposes. The planning estimate holder's responsibilities are set forth in the preceding paragraph entitled "Subordinate Commanders Not Allotted Funds."

The division commander issues planning estimates to his regimental and separate battalion commanders plus selected division staff officers. Staff officers receiving planning estimates normally have staff cognizance over a highly specialized function which requires close control. An example would be the issuance of a planning estimate to the division adjutant for the purpose of funding temporary additional duty orders.

It should become apparent to the reader that the above-described system for fund administration within the Marine division exhibits considerable merit. Funds are controlled centrally by the division commander through his staff officer, the division comptroller. Funds are expended decentrally by unit commanders and selected staff officers. In this manner, the most knowledgeable person, the unit commander, can channel the flow of funds to meet present and planned requirements for materiel and services needed to accomplish the mission.

Marine Division Financial Plan

Budget Formulation

Fund requests. --Budget formulation consists of the estimation, preparation, and approval of fund requests. The approved budget

constitutes the division commander's financial plan. Budget estimates are formulated and submitted on the form, Annual Budget Estimates (Fund Request), Project 11, Format A. Appendix C is a sample form. This form is commonly known as Format A, and will be thus referred to in this paper. Budget formulation and submission is tantamount to the reverse of the fund-distribution process which was described previously. Pursuant to current instructions, planning estimate holders prepare Format A's for the current year, the budget year, and the budget year plus one and submit them to the division comptroller. Since final budget estimates are prepared in March of every year, the current year's budget estimate includes actual expenditures for the first three fiscal quarters plus estimated expenditures for the fourth fiscal quarter. Budget submissions for the budget year and budget year plus one are total estimates for fund requirements.

At the division level, planning estimates from units and staff officers are reviewed and consolidated into a division budget for the current year, the budget year, and the budget year plus one. The division's budgets are forwarded to the Fleet Marine Force Commander. The Force Commander prepares a consolidated budget for each of the three years; however, each consolidated budget is supported by the attached budgets from the major commands, i. e., the divisions and wings. The Fleet Marine Force budgets are submitted to Headquarters, Marine Corps, for incorporation in the Marine Corps budget. Procedures and terminology may vary somewhat between the two Fleet Marine Forces, but the aforementioned budgetary formulation is, in essence, what happens.

Format A. --From a perusal of Appendix C it can be seen that Format A is largely self-explanatory. As noted above, Format A serves the dual purpose of a fund request (budget) and, when approved, becomes the division commander's guide as a financial plan. Format A is divided into five major budget areas: operations; maintenance of equipment; procurement of material; replenishment of T/E (table of equipment); and procurement for issues of materiel end use not immediately known. Column 2, titled EAN, lists a series of numbers. EAN means Expenditure Account Number. The term has been revised to FAN which means Financial Account Number; FAN's are used to classify expenditures according to end use or purpose for which expenditures are made.¹ Financial account numbers amount to accounting subdivisions of Project 11 funds, and are useful devices for aggregating and summarizing costs for purposes of reporting, budgeting, and cost analyses. Further, the use of financial account numbers facilitates the processing of fiscal data by mechanized means. Preparation of the Format A is a complex and exacting task in itself. However, the mathematical computations set forth on Format A are supported by extensive narrative justification. This is particularly true in those instances when significant variances exist among the submitting unit's current year, budget year, and budget year plus one fund requests.

Budget Preparation Schedule. --Budget preparation by the Marine division extends over a period of approximately six months annually. The

¹Ibid., Chapter 1, p. 9.

CHAPTER II. THE THEORY OF THE CONSTITUTION.

The theory of the constitution is a branch of political science which deals with the principles and the structure of the government. It is a science which is concerned with the organization of the state and the distribution of power among the different branches of the government. The theory of the constitution is a science which is concerned with the principles and the structure of the government. It is a science which is concerned with the organization of the state and the distribution of power among the different branches of the government.

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budget preparation schedule followed by the Second Marine Division stationed at Camp Lejeune, North Carolina, is set forth below as an example:

1. 1 October. First phase guidance for the budget year and the budget year plus one is received from the Commandant of the Marine Corps.
2. 30 January. Budget planning data by staff sections are submitted to the Assistant Chief of Staff, Comptroller.
3. 15 February. Comptroller issues Second Marine Division Annual Budget Guidance.
4. 1 March. Preliminary budget estimates are submitted to the Comptroller by planning estimate holders and organizational commanders.
5. 5 March. Second phase of final guidance for the budget year and budget year plus one is received from the Commandant of the Marine Corps. Final guidance for the budget year and the budget year plus one is received from the Commanding General, Fleet Marine Force, Atlantic.
6. 10 March. The revised budget planning data, if required, are submitted to the Comptroller.
7. 15 March. Revisions to the Second Marine Division Annual Budget Guidance are issued, if required.
8. 20 March. Revised budget estimates are submitted to the Comptroller by planning estimate holders and organizational commanders, if required.
9. 25 March. The Second Marine Division Budget is reviewed by the Financial Management Board.
10. 1 April. The recommended Second Marine Division Annual Budget Estimate is presented to the Commanding General.
11. 5 April. The approved Second Marine Division Annual Budget Estimate is forwarded to the Commanding General, Fleet Marine Force, Atlantic.¹

Budget Execution

Budget execution consists of the allocation, receipt, expenditure, accounting, and reporting of funds. Since the fund allocation process has been discussed in the first part of this section, it need not be repeated here.

¹Marine Corps, Standing Operating Procedure for Financial Management, op. cit., Chapter 3, p. 6.

Receipt of Funds. --If the fund authorization received is not in agreement with the fund request, the division commander, with staff assistance, must adjust the financial program accordingly. Usually this involves command decisions relative to the reduction, elimination, or delayed execution of certain projects. Occasionally, the Commandant of the Marine Corps provides more funds than were requested. The commander may be instructed by the Commandant how to spend the additional funds, or the commander may be permitted to spend the funds as deemed best. Subsequent to any financial program adjustment, the division commander determines what portion of the funds received is to be held in the administrative reserve for contingencies and what portion is to be distributed to subordinates in the form of planning estimates. The division commander's decisions are translated into ledger entries, planning estimates are issued to subordinates, and then the spending commences.¹

Expenditure of funds. --Project 11 funds are spent for the operation and maintenance of the division. These expenditures encompass the requisitioning of expense-type material, maintenance of equipment, purchase of services, and issuance of temporary additional duty orders. Project 11 funds do not pay for military personnel salaries, the purchase of investment-type equipment, or the cost of depot maintenance of equipment; these types of costs are paid for from other Marine Corps appropriations. In a sense,

¹Marine Corps, Budget Formulation and Execution, op. cit., Chapter 4, p. 12.

military personnel, investment items, and depot maintenance of equipment are furnished at no charge to the division; however, this fortunate condition in no way lessens the division commander's over-all responsibility for the maintenance of a "ship-shape" command in all respects. For those purchases of material and services that the division makes, fund expenditures flow back through the fiscal accounting system to the division comptroller. The comptroller records expenditures in the fund resources ledger.

Accounting and reporting for funds. --The division commander is required to maintain a fund resources ledger and to submit suballotment status reports to the Commandant of the Marine Corps. In actuality, the functions are performed by the Assistant Chief of Staff, Comptroller. The fund resources ledger is a chronological record of commitments, obligations, and expenditures against the suballotment of funds; thus, the status of funds is readily known. Fund resources ledgers are maintained for each allotment, suballotment, budget project, and planning estimate. The allotment status report is submitted monthly to the Commandant of the Marine Corps; it reflects the status of commitments, obligations, and expenditures against the suballotment. The allotment status report is compiled from the fund resources ledger.¹

¹U. S. Marine Corps, Financial Accounting Manual, Marine Corps Order P7300.8A (Washington: Headquarters, U.S. Marine Corps, 1966), Chapter 2, pp. 23-25.

This chapter has attempted to describe briefly financial management as it is currently performed within the Marine division. Chapter IV will endeavor to assess the impact of Project PRIME on the financial management of the Marine division.

CHAPTER IV

IMPACT OF PROJECT PRIME ON MARINE DIVISION

FINANCIAL MANAGEMENT

Our overall goal is the design and implementation of resource management systems that will provide managers at all levels within the Department of Defense the means by which to assure that resources are obtained and used effectively and efficiently in the accomplishment of Department of Defense objectives.¹

Should General Wallace M. Greene, Jr., Commandant of the Marine Corps, query any one of his four division commanders relative to the amount of total annual operating costs for the division, the division commander could furnish only an approximate figure based on an educated estimate. Why is this true? Why is the division commander unable to provide a close estimate of total annual operating costs? Is this situation the result of the commander's not knowing what is occurring in the organization or that prescribed accounting records are not being maintained? Certainly not. Division commanders are acutely aware of organizational activities and insist that accurate and timely allotment accounting records be maintained by the comptroller. In practice, allotment accounting records are updated on a daily basis; for this reason, the division

¹Robert N. Anthony, Assistant Secretary of Defense (Comptroller), in an address before the 1966 Navy Supply Conference, Harrisburg, Pennsylvania, May 4, 1966.

commander knows from day to day the status of those funds for which he is accountable. Therefore, the Commander's inability to state total annual operating costs is not due to lack of interest or records. In actuality, the inability may be attributed to the present budgetary accounting system used by the division and throughout the Department of Defense.

There are many valid reasons why the division commander cannot closely estimate annual operating costs. The principal reasons are:

1. Operating costs are commingled in four of the five appropriations described in Chapter III; the appropriation for Reserve Personnel, Marine Corps, is excluded.

2. Military personnel labor costs are not recorded or accounted for as operating costs by field activities. The appropriation Military Personnel, Marine Corps, is managed by Headquarters, Marine Corps.

3. Minimal cost accounting is performed at the division level.

4. Only a small percentage of the total annual cost is controllable and hence managed by the commander.

5. Budgeting philosophy is based currently on required resources (inputs), whereas costing is based on mission results (output). No device exists presently for correlating inputs to outputs to permit variance determination for cost-effectiveness measurement.

6. Some operating costs are charged statistically (not an actual charge to the allotment); personnel costs and those of certain

consequently failed from the fact that the administration had the right to be
 responsible. However, the Commission's decision to take this course
 was not based on any fact of law or equity, but merely on the
 fact that the Commission had the right to do so. It is not clear
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1. The Commission's decision to take this course is not supported
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appropriation Stores Account items are examples. Control of these costs is exercised by Headquarters, Marine Corps.¹

The reasons become apparent why the division commander--or any commander, for that matter--cannot provide meaningful, annual, and total cost information. Budgeting requirements, accounting and reporting system design, and lack of resource controllability at the division command level preclude the aggregation of total annual organizational costs. The division commander manages those funds that are controllable and for which he is responsible, fully recognizing that the recorded fiscal expenditures constitute but a fraction of the total operating expenses for the division. Consequently, meaningful cost-effectiveness comparisons of division commanders of the same unit, or cost comparisons among divisions, have not been feasible to date.

So far, comments have tended to reflect present Marine Corps budgeting and accounting systems limitations. However, in some respects, Marine Corps budgeting and accounting processes are considerably advanced over those of other services and parallel closely the concepts espoused by Project PRIME. For example, Chapter II quoted certain Second Hoover Commission recommendations--specifically, No. 23, which recommended:

That the allotment system be simplified. As an objective each operating unit should be financed from a single allotment for each appropriation involved in its operations.²

¹Marine Corps, Marine Corps Commanders and Financial Management Manual, op. cit., p. 1.

²Commission on Organization, Budgeting and Accounting, op. cit., p. 6.

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Further, Secretary Anthony has indicated that Project PRIME means that there must be a close match between the program that a manager is instructed to carry out and the financial resources authorized for use. This will minimize the number of frustrating situations in which the manager is told through one channel that he is responsible for doing a certain job but is told through another channel that resources required to accomplish the task are not available.¹ In describing the Marine Corps allotment accounting system, Chapter III specified that, in essence, one allotment of funds is furnished each command, and it traced the flow of funds down through command channels. Therefore, the Marine Corps is meeting these two requirements and, as a matter of fact, has been since the implementation of the allotment accounting system in 1955.

Another important achievement area has been the establishment and extension of working-capital funds. Recall from Chapter II that the First Hoover Commission recommended and the National Security Act Amendments of 1949 enacted into law that:

In order more effectively to control and account for the cost of programs and work performed in the Department of Defense, the Secretary of Defense is authorized to require the establishment of working-capital funds in the Department of Defense for the purpose of (1) financing inventories of such stores, supplies, materials, and equipment as he may designate . . .²

¹ Department of Defense, A Primer on Project PRIME, op. cit., pp. 15-16.

² National Security Act Amendments of 1949, op. cit.

The Marine Corps Stock Fund, a working-capital fund, was established in 1955. Since then, expense-type items have been transferred systematically to the Stock Fund from the appropriation Procurement, Marine Corps. A recent interview with the Assistant Director of the Stock Fund Branch, Marine Corps Supply Department, indicated that about 95 per cent of the expense-type items were contained in the stock fund.¹ A Project PRIME requirement is that appropriations be purified so that all expense items are associated with operating appropriations and none with the procurement or construction appropriations. This involves shifting items of spare parts and similar consumables from continuing appropriations to operations; it also involves moving a few capital items from operations to continuing appropriations.² Here, again, the Marine Corps has been operating in accordance with the intent of Congress and Project PRIME. Some transfer of items between the Stock Fund and the Procurement appropriation will be required, of course; however, no mass migration of items either way will be needed to meet Project PRIME requirements. Certain other services are not in this fortunate position.

Finally, budgetary preparation has been facilitated and standardized by the development and adoption for field use of Format A (Appendix C). Credit for the development of Format A must be attributed to the Fiscal

¹Interview with Mr. Anthony J. Varano, Assistant Director, Stock Fund Branch, Supply Department, Headquarters, Marine Corps, Washington, D.C., December 22, 1966.

²Anthony, "Closing the Loop," op. cit.

Division, Headquarters, Marine Corps. Perusal of Format A explicitly indicates that it is well suited for its intended purpose. In an interview, Mr. Edward T. Beese indicated that there will be no change in Format A for Fiscal Year 1968 and that any change to Format A in Fiscal Year 1969 would depend upon what information is required by the expense operating budget. He believed, however, that since Format A is "mission oriented," it should serve as an expense operating budget with slight modification.¹ Whatever changes in Format A are required, he advised, will be occasioned by changes in the accounts structure required by Project PRIME (new account structure will be described in a subsequent paragraph). Mr. Beese concluded that usage of Format A has resulted in the Marine Corps being on an expense operating budget all along. Thus, whether intentionally or unintentionally, the Marine Corps Project 11, Operation and Maintenance Budget, has been following partially another requirement of Project PRIME in that budgets should be mission- and expense-oriented.² The same observation applies to the Marine division budget.

The above examples of Marine Corps functions which coincide with Project PRIME's objectives were presented to offset problem areas previously mentioned. The fact that some alignment exists between current fiscal functioning and PRIME objectives is a fortunate situation. However,

¹ Interview with Mr. Edward T. Beese, Operation and Maintenance Section, Budget Branch, Fiscal Division, Headquarters, Marine Corps, Washington, D.C., March 6, 1967.

² Department of Defense, A Primer on Project PRIME, op. cit., p. 13.

as the following paragraphs indicate, much remains to be accomplished before it can be stated that Project PRIME has, in fact, been implemented within the Marine division.

Prior to presenting the impact of Project PRIME on the multifarious financial management activities of the Marine division, Project PRIME's objectives are reiterated for the purpose of establishing a foundation for subsequent discussion. The objectives of Project PRIME are as follows:

1. Project PRIME is concerned with operating resources as contrasted with investment resources. It has to do primarily with resources that are financed under the Operation and Maintenance and Military Personnel appropriations, not with the Procurement, Construction, or Research, Development, Testing, and Evaluation appropriations.

2. Programming, budgeting, and management accounting will have an integrated structure; this means that the information used in these three systems will be consistent.

3. The focus is on expenses, i. e., on the resources consumed by organizational units in carrying out their part of the program. . . . In the current budgeting and accounting systems, perhaps only 15% to 20% of the resources actually used by an organization are reported as costs to that organization. The long-range goal is to charge an organizational unit with 100% of the measurable expenses that it incurs.¹

The central objective of the changes being made is to aid operating managers at all levels by providing them with:

1. Clearly defined goals.

2. Some added discretion in determining the mix of resources used to achieve these goals.

¹ Ibid., pp. 13-14.

3. A meaningful way to measure and report how well goals are met and how efficiently resources are being used to meet the goals.

4. Even stronger motivation than at present to manage well.¹

Military Personnel Costs

A full-strength Marine division totals approximately 20,000 Marines. The military pay for so large a group of people amounts to a sizable sum of money regardless of the time period considered--i.e., hourly, daily, weekly, monthly, or annually. As described in Chapter III, military pay, allowances, individual clothing for enlisted Marines, subsistence, and permanent change of station costs are paid by the appropriation Military Personnel, Marine Corps.² The Military Personnel, Marine Corps, appropriation is managed by the Fiscal Division, Headquarters, Marine Corps. Open allotments--allotments established which may be charged for specified purposes by authorized officials without monetary limitations³--are created for the purpose of paying military personnel. Disbursing officers pay Marines and charge the costs to the appropriate open allotment of the Military Personnel, Marine Corps, appropriation. Consequently, the division commander does not know, nor does he have a need to know, the military personnel costs incident to the operation of the division.

¹Ibid., p. 12.

²Marine Corps Commanders and Financial Management Manual, op. cit., p. 1.

³Ibid., p. 20.

However, Project PRIME considers that military personnel costs constitute the most important single element of controllable costs not now budgeted or accounted for by military units.¹ Accordingly, the division commander will be required to include military personnel costs in operating costs covered by the command's budget. The purposes for including military personnel costs in the operating budget are to:

1. Develop an awareness of the cost of the military personnel assigned.

2. Establish a means to compare military personnel costs against other manpower resources, such as civilian personnel or contract personnel.

3. Relate the total cost of actual to planned operations.²

In this connection, Rear Admiral Paul Masterton, Deputy Comptroller, U. S. Navy, has observed that too many commanders feel that military personnel are a "free" commodity and, therefore, are not considered in unit expenses. He believed that commanders might be more economical if military personnel costs were considered. Further, he reasoned that commanders would consider "trade-offs" of equipment for people as an economizing means.³ Admiral Masterton cited an example at the Navy's Project

¹Department of Defense, A Primer on Project PRIME, op. cit., pp. 50-51.

²Ibid., p. 72.

³An address by Rear Admiral Paul Masterton, U.S. Navy, Deputy Comptroller, Department of the Navy, to the Navy Graduate Financial Management Class, The George Washington University, Washington, D. C., March 1, 1967.

However, the Commission has not yet decided whether it

should also consider the possibility of a separate procedure for

the resolution of disputes between the Member States.

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PRIME test site, Quonset Point, Rhode Island. In removing snow from the aircraft ramp of a large repair shop, the shop officer found it cost less to buy commercially and operate a dozen small hand-operated snowplows than to have public works perform the task with large truck-mounted plows.¹

In another example, Admiral Masterton described how the overhaul and repair shop commenced minor repair of jet engine starters when it learned the public works cost of repair for each starter and became aware of the fact that relatively few repair parts were required and that the task could be performed by shop personnel expeditiously. The point Admiral Masterton stressed to the class was that when unit total operating costs are fully recognized the commander will seek to economize by means available--e.g., trade-off of equipment for people or vice versa.² This same management philosophy will, no doubt, occur to the division commander. Upon learning the total military personnel costs implicit in division functioning, the division commander will exert "command attention" to reduce military personnel costs where and when possible.

To accomplish the charging of military pay to organizational units, military departments are computing standard costing rates for each rank in accordance with guidance furnished by the Department of Defense.³ Standard rates would include military pay, allowances, and retirement benefits.

¹ Ibid.

² Ibid.

³ Interview with Mr. Milton A. Gillie, Personnel Section, Budget Branch, Fiscal Division, Headquarters, Marine Corps, Washington, D. C., March 6, 1967.

Computation of standard military rates appears deceptively simple to the uninformed person. Actually, rate computations are complicated by differing time-in-service pay differentials within each grade. Further, doctors, aviators, and certain other personnel draw pay increments in the form of medical pay, flight pay, hazardous-duty pay, etc. These and other problems complicate the computation of standard military pay rates. However, the problems associated with standard rate computations are being solved and resolved as experience with military personnel costing techniques accumulates.

When standard military pay costing rates have been computed and approved for use, military commands will be required to budget for military personnel costs by grade and by man-years. The precise handling of standard military pay rates in organizational budgets has not been determined at this time. Initially, the Fiscal Division, Headquarters, Marine Corps, will compute, compile, and periodically provide military personnel costs to Fleet Marine Force unit commanders for budgetary use. The unit commander will incorporate military personnel costs in the organizational budget as a statistical cost. This procedure will apply to Fiscal Year 1968 and possibly Fiscal Year 1969.¹ Eventually, the Department of Defense envisions that the Operation and Maintenance, and Military Personnel appropriations will be combined into a single Operations Appropriation for

¹Ibid.

the Marine Corps.¹ Whether or not the appropriations will be restructured depends on the concurrence of Congress. In any event, within the Department of Defense, the military commander will be required to budget and account for the cost of military personnel. An interesting facet of the problem of costing military pay is that services are being required to budget for the costs of military pay for attached personnel from other services.² This alone opens up a whole "Pandora's box" of questions; however, consideration of this problem is beyond the scope of this paper and resolution thereof will be deferred to the "experts."

The division commander has little control over personnel assigned to or transferred from the division; personnel are managed by Headquarters, Marine Corps. For this reason, the division commander's flexibility to effect resource "trade-offs" is subject to constraints. Project PRIME recognizes this limitation when excepting detailed cost computation for personnel assigned to combat units. For combat personnel, military services will be required merely to accumulate total standard costs in aggregates by organization units.³ Even though the division is provided this latitude in military pay costing, the basic objectives of Project PRIME in this regard remain, in the writer's opinion, valid and applicable to

¹From address by Rear Admiral Paul Masterton, op. cit.

²Interview with Mr. Milton A. Gillie.

³Department of Defense, A Primer on Project PRIME, op. cit., p. 51.

division operations, particularly when the command is in garrison.

Material costs. --Chapter III described how the Marine division with funds allotted purchases expense-type items from the Marine Corps Stock Fund account. Also, Chapter II defined the Marine Corps Procurement appropriation. This appropriation supports the procurement of investment-type items which are furnished to the division at no charge. There was reference earlier in this chapter to the purification process occurring between the Stock Fund and the Procurement appropriation. This means simply that all expense-type items are being aggregated in the Stock Fund, and all investment-type items are being placed in the Procurement appropriation. Accordingly, transfers of items between the two appropriations are currently in process. As noted, 95 per cent of the expense-type items already were in the Stock Fund prior to commencement of the purification process. For this reason, in Mr. Beese's opinion, the division commander's expenses for Stock Fund items should not be affected significantly by the purification process. He estimated that the \$6 to \$8 million expended annually by the division for the purchase of Stock Fund items should not increase by more than 10 per cent because of the purification process. However, he added that an explicit determination of the financial impact of the purification process on the division commander's expenses must await completion of the project.¹

¹Interview with Mr. Edward T. Beese.

In the meantime, at the direction of the Commandant of the Marine Corps, division commanders are estimating the impact of the purification process on their units' future operating expenses. To accomplish this, unit commanders are computing usage-data listings for the items affected; when priced, extended, and totaled, these listings will be appended to and submitted with the Fiscal Year 1968 budget submissions.¹ Since the division commander has been purchasing from the Stock Fund since about 1955, procurement procedures for acquiring Stock Fund material are well known and understood. If the purification process does not result in a significant increase of expenditures over budgetary estimates, no cause for concern should arise.

Whereas the division has experience and knowledge relative to purchasing material from the Stock Fund, little experience exists in the area of depot repair of equipment. Depot repair in the Marine Corps means the complete rebuilding of an item of equipment. Heretofore, the Commandant of the Marine Corps specified annually that a certain number of each major equipment item would be returned to a Marine Corps supply center for complete rebuilding. Prior to evacuating major items of equipment to a supply center, the new item would be furnished to the division at no charge. Funds for the rebuilding of equipment had been furnished to the supply center from another project under the Operation and Maintenance appropriation.

¹Ibid.

The long-range goal of Project PRIME is that the division should be responsible for 100 per cent of its operating expenses. Therefore, the division should pay for the depot repair of its organizational equipment. Currently, this problem is being studied by Headquarters, Marine Corps. The crux of the problem centers on how much a unit should be charged for depot repair of an equipment item. Discussion of this problem with Mr. Cogliano indicates that two methods of charging may be employed; these are:

1. If a unit turns in an item for repair and desires the same item returned, the actual repair cost will be charged.

2. If a unit turns in an item and requests a replacement item, a standard repair cost will be charged.¹

Mr. Cogliano commented that, while the above approaches to charging for depot repair work were being studied, the matter had not been resolved.

In any event, he felt that depot repair costs would have to be included in the division's expense operating budget.² Inclusion of depot repair costs in the division's expense operating budget will constitute a requirement for a significant increase in fund authorization.

Budgeting process. --Chapter III described financial management as it will exist in the Marine division until July 1, 1967. As noted, financial management is restricted to those materials and services that result in an

¹Interview with Mr. Vincent L. Cogliano, Assistant Head, Accounting Branch, Fiscal Division, Headquarters, Marine Corps, Washington, D. C., March 6, 1967.

²Ibid.

expenditure of appropriated funds allotted to the division. Little attention need be paid to other costs as military personnel pay, certain Appropriation Stores Account material (statistical charges), or depot repair of investment-type items, since such costs are considered as "free resources." This situation has resulted in the division commander's controlling only a small percentage of his total costs. Project PRIME is designed to correct this deficiency by providing the commander with a budget which will include all operating costs.¹ The Department of Defense has determined that management will be improved if the financing of an activity is related to the total costs of the task or mission assigned. Accordingly, the commander's flexibility to shift resources around to meet changing demands will be increased by the fact that his budget will contain so many more resources than are now provided by his allotments. Through the use of an approved expense operating budget that includes the cost of all resources, in lieu of allotments as authorization for the use of resources, the division commander will be permitted increased flexibility and discretion in the application of resources to mission accomplishment.² The term "expense operating budget" has been used sparingly heretofore but will be discussed extensively in subsequent pages. Accordingly, an expense operating budget is defined as the annual budget of a responsibility center stated in terms of cost centers.

¹U. S. , Department of the Navy, Office of the Comptroller, "Financial Management of Resources (Operating Forces)," NAVSO P-3013, Draft copy, not a directive), undated, Chapter 1, p. 3.

²Ibid., p. 4.

The budget will contain estimates of the total value of all resources required for performance of the mission of the responsibility center, including work or services for others.¹

Under Project PRIME concepts, the Marine division would be designated as a responsibility center.² A responsibility center may be defined as a command of the operating forces so designated by a Fleet Marine Force Commander. Examples are (1) a Marine division, (2) a Marine aircraft wing, and (3) separate commands. Also, a responsibility center may be defined as an organizational unit that is responsible for the performance of a function (output), uses resources (inputs), and is headed by a responsible individual who has significant influence on the use of the resources in the unit.³ Certain staff officers and major subordinate commands of the division would be designated as cost centers. Cost centers are the first subdivision of a responsibility center. Each cost center is an organizational entity for which identification of costs is desired and which is amenable to cost control through one responsible supervisor.⁴ In the case of the division, a regiment, separate battalion, or designated staff officer would be identified as a cost center. Essentially, current planning estimate holders will become cost centers.

¹Ibid.

²Interview with Mr. Cogliano.

³Department of Defense, A Primer on Project PRIME, op. cit., p. 62.

⁴Department of the Navy, "Financial Management of Resources (Operating Forces)," op. cit., p. 4.

The budget will provide a substantial increase in the total of all Government services, and will be a major factor in the development of the economy. The Government will be able to provide a more efficient and more effective service to the people.

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The following concepts are basic to the design of the expense operating budget system:

1. Responsibility centers will receive approved expense operating budgets in lieu of allotments under the appropriation, Operation and Maintenance.

2. Activities now financed by the appropriation, Operation and Maintenance, could receive a separate expense operating budget for each Five-Year Defense Program under his command.

3. The monetary portion of the expense operating budget will be based on total value of orders to be placed for material or services that will result in an expense, classified in a manner that will permit proper allocation of funds at the departmental level.

4. Expenses include civilian personnel pay, military personnel services at standard rates, all material expenditures, charges for services, rental charges, and statistical cost transfers from other responsibility centers.

5. Issues of any consumable material from stores will be reported as an expense of the year current at the time of recording the expenditure for the material; however, such issues will be charged against the appropriation current at the time of material requisitioning.

6. At the beginning of each fiscal year the amount of the unfilled orders at the end of the prior fiscal year will be recorded in the general ledger to increase the amount of the current fiscal year's approved expense operating budget.

7. The value of the recorded expenses plus unfilled orders must not exceed the amount of the approved expense operating budget.

8. The total of each approved expense operating budget will be a limitation that cannot be exceeded without prior approval.

9. The amounts budgeted less military personnel services, for each classification within an approved expense operating budget will be expense targets that can be exceeded, provided the total budget less military personnel services is not exceeded.

10. Savings (other than those representing savings in the military services area) achieved through effective management in one cost center may be applied to other cost centers within the same expense operating budget as deemed necessary for effective operations.

11. An outstanding unfilled order account will be maintained for the purpose of reporting obligations.¹

¹Ibid., p. 5.

A separate set of expense accounts will be maintained for each operating expense budget. Each set of expense accounts will be maintained as a part of a double-entry system of accounts for the operating expense budget. The following is the uniform expense-elements structure currently being considered for budgetary and accounting purposes:

1. Military personnel
2. Military trainees
3. Military transients
4. Military reservists, full time
5. Military reservists, trainees
6. Civilian personnel
7. Travel of personnel
8. Transportation of things
9. Utilities
10. Communications
11. Other purchased services
12. Aircraft fuels
13. Ship fuels
14. Supplies for mission primary equipment
15. Other supplies
16. Mission primary equipment
17. Other equipment
18. Other expense
19. Service credits.¹

The uniform expense accounts to be prescribed will cover only the expense data required by the Office of the Secretary of Defense. Each military department and defense agency will amplify the structure to meet its special management needs. Such additional accounts, however, must be subsidiary to the uniform expense account structure, or permit aggregation to the uniform expense account structure.²

¹ Department of Defense, A Primer on Project PRIME, op. cit., p. 61.

² Ibid., p. 59.

In budget formulation, the Fleet Marine Force Commander will issue specific planning data and budgetary guidelines to the division commander for submission of the expense operating budget. Based upon the Force Commander's guidance, the division commander (responsibility center) will promulgate budgetary guidance to subordinate commands and certain staff officers (cost centers) with the request that budget estimates be prepared. The division commander's budgetary guidance to cost centers should include such information as policy decisions, assumptions, and instructions relative to the preparation of expense operating budgets. Basically, the preparation of an expense operating budget involves three steps:

1. Breaking down the planning input into the cost elements of labor hours, material requirements, and work or services to be performed by other responsibility centers or by contract.
2. Applying dollar estimates to the cost elements of item 1.
3. Determining the total cost of cost elements.¹

When completed, cost centers will submit expense operating budgets to the division comptroller for consolidation into a division expense operating budget. The division expense operating budget will be presented to the commanding general for review and approval. The commanding general is responsible for ensuring that the expense operating budget gives

¹Department of the Navy, "Financial Management of Resources (Operating Forces)," op. cit., Chapter 2, p. 2.

recognition to all programs allocable to the budget, that the work-load planning is valid, and that the cost estimates are supportable to higher review authorities. Upon approval, the division budget is submitted to the Force Commander.

When reviewed and approved by higher authorities, the division's expense operating budget will be returned for execution. The approved document will be the commanding general's authority to execute the approved plan under the expense operating budget.¹ Funds will be distributed to cost centers in the same manner as described in Chapter III. The commanding general should establish internal reporting procedures for cost center execution which disclose on a timely basis:

1. Actual costs compared to planned costs.
2. Significant variances in actual costs.
3. The reasons for the variances.
4. The status of the total expense operating budget.²

The commanding general may revise expense operating budget locally provided the changes do not increase either the total of the budget or the total less military services as approved by the Force Commander. This authority allows the commander considerable flexibility in budget execution.

Accounting and reporting processes. --The accounting principles for the expense operating budget granted to the Marine division are established as follows:

¹Ibid., p. 3.

²Ibid.

1. An order for material or services citing an expense operating budget will be recorded to an unfilled order account.

2. Expenditure documents, which match with a related order, will reduce the current year expense operating budget fund availability and will be distributed to a current year expense element, regardless of the appropriation fiscal year cited on the order.

3. Unmatched expenditure documents will be recorded to an undistributed expense account without effect on the expense operating budget funds availability, pending validation of the expenditure.

4. The sum of general ledger accounts Anticipated Expenses, Funds Expended and Military Services Applied will not exceed the available balance of the expense operating budget.

5. Disbursements and stores issued will be expended to the appropriation fiscal year cited on the order.

6. Records will be maintained to report both appropriation and expense operating budget transactions on a fiscal year basis.¹

The accounting system provides accounts, records, and procedures for recording transactions and is designed to include accounting and budgeting controls. The accounts and records are designed to provide financial and cost information required by a commander. The primary source of data for financial planning and financial control is a system of cost accounting by cost center with expense classification as appropriate for financial planning. The accounting system has the following features:

1. Double-entry method of accounting.
2. Internal control over all transactions.
3. Integration of cost accounting records with the general books of account.²

The principal areas of financial control at commands under the expense operating budget system are:

1. Management controls consisting of methods and procedures designed to promote the efficient and effective use of all resources (input) in relation to mission performance (output);

¹Ibid., Chapter 4, p. 4.

²Ibid.

2. Cost controls, consisting of procedures employed to insure that costs incurred are related to work authorized within the purview of the functions of the activity;

3. Accounting controls, consisting of administrative procedures employed to maintain and prove the accuracy and propriety of transactions and the related accounting records;

4. Budgeting controls, consisting of the establishment of a financial plan (expense operating budget), the accumulation of data on the same basis of the expense operating budget, and taking action to keep operations in line with the expense operating budget objectives.¹

A general ledger will be maintained for each expense operating budget. This is the book of accounts in which all expense operating budget accounting entries will ultimately be summarized. The accounts of the general ledger provide a single over-all control for the expense operating budget and unfilled orders citing the expense operating budget. The general ledger will be supported by subsidiary records which can be summarized at the cost center and expense element level. Subsidiary records will provide the details for most of the reports required under the expense operating budget system inasmuch as the total of the details represents the total of all resources expended.²

The expense operating budget system includes reporting for actual output, planned output, and variances. The quantitative information will be used by managers at all levels of command in the process of ensuring that all resources are used effectively and efficiently in accomplishing the mission of the command. Specifically, the Expense Operating Budget Financial

¹Ibid., p. 5.

²Ibid., p. 6.

Report will be prepared and submitted monthly to the Commandant of the Marine Corps with a copy to the Force Commander.¹

Division commander's responsibilities. --Naval regulations and tradition provide that the division commander is responsible for everything that happens or fails to happen within his command. This statement, plus the commander's specific responsibilities for financial management detailed in Chapter III, remains valid under the expense operating budget system. Although redefinition of or changes in terminology may occur, the commander's responsibilities set forth in Chapter III reflect their totality and binding nature. Thus, to state categorically that the commander's financial management responsibilities, per se, are increased under the expense operation budget system is erroneous by definition.

However, Project PRIME changes are designed to aid the field commander. They should afford the commander a much better basis for compiling budget estimates. Most important among the changes is the inclusion of the full measurable cost of operating activities in the operating expense budget. Now the commander will know just what it costs to operate his command and will be able to measure the program effects of an increase or decrease in the level of activity. This knowledge should assist the commander in deciding whether to expand or contract unit efforts. Budget justification should be easier for the commander. Also, budget review authorities should find the

¹Ibid., Chapter 4, p. 26.

budget request more realistic and understandable.¹

Although the division commander's responsibilities for financial management cannot be expanded, his indoctrination of subordinate commanders and staff officers may focus increasingly on the importance of proper financial management practices. "Command attention" to financial management can result in coordinated effort throughout the division. The comprehensive nature of Project PRIME requires that all subordinate commanders and staff officers cooperate to make the expense operating budget system operate effectively. Only in this manner can the system function effectively and efficiently and achieve the desired result of economy. Further, an increasing number of officers and enlisted Marines trained in accounting skills will be required by the division. The division commander may specify that the division training program furnish these skills by either internal or external schooling.

Functions of the Assistant Chief of Staff, Comptroller. -- The financial management units of the division comptroller's office are the Executive, Budgeting, and Fiscal units. These units are staffed by three officers and eight enlisted Marines, or a total of eleven Marines. This group is kept totally occupied by performing allotment budgeting and accounting as currently established. Perusal of basic concepts, accounting principles, and features of the expense operating budget system,

¹Department of Defense, A Primer on Project PRIME, op. cit., p. 67.

presented in previous paragraphs, reflects the need for substantial augmentation by personnel skilled in cost-accounting techniques. Further, as Chapter III relates, the functions of the comptroller include (1) a comparison of program performance with the financial plan and (2) an analysis of variances and the determination of required adjustments. Under expense operating budget system concepts, these two functions assume considerable importance; yet, the division comptroller's organization does not appear to be adequately staffed to handle them. Accordingly, it is believed that the division comptroller's office should be augmented by skilled cost-accounting personnel and by an Operations Research Unit.

This position is supported in part by Major Leo J. Scolforo, Office of the Comptroller, Second Marine Division, when he states:

In general, the comptroller functions will have to change to a more dynamic form of financial management. . . . I would say the following areas will see significant improvements: (1) inventory management and (2) unit-to-unit comparative cost analysis by Operation and Maintenance Appropriation financial accounting numbers. When you go beyond these points, you have to get into cost areas such as determining actual maintenance cost by equipment item or pricing man/company/battalion days of field training.¹

He concludes that additional cost analysis may be required, but it will require a great deal more accounting sophistication than is now possessed by Fleet Marine Force commands.

This chapter has attempted to describe the impact of Project PRIME on the Marine division's financial management activities.

Chapter V will present the summary and conclusions.

¹Letter from Major Leo J. Scolforo, U.S.M.C., Office of the Comptroller, 2d Marine Division, Camp Lejeune, N.C., Feb. 24, 1967.

CHAPTER V

SUMMARY AND CONCLUSIONS

Project PRIME, which will be implemented within the Department of Defense on July 1, 1967, is concerned with the utilization of operating resources--i.e., men, money, and expense-type materiel. Project PRIME focuses on expenses incurred by the division in executing its assigned mission. Heretofore, the division has been managing and accounting for only an estimated 15 to 20 per cent of the total resources actually used. The long-range goal of Project PRIME is to charge the division with 100 per cent of the measurable costs incurred.

As an initial step to separate operating expenses from investment costs, the Marine Corps Stock Fund and Procurement Appropriations are being purified pursuant to criteria furnished by the Department of Defense. Purification means that investment-type items will be aggregated in the Stock Fund. Transfers of line-items between the appropriations are now in process. The Marine division purchases expense-type materiel from the Marine Corps Stock Fund with operating funds. It is estimated that the purification process will result in a 10 per cent increase in the division's operating expenses.

Division military personnel costs have been paid from the appropriation Military Personnel, Marine Corps; this appropriation is managed

by the Fiscal Division, Headquarters, Marine Corps. Personnel are paid by local disbursing officers, who charge military pay to open allotments established by Headquarters, Marine Corps. Accordingly, the division has not been aware of the costs of military personnel services. Thus, military personnel have tended to be treated as a "free" commodity. Under the concepts of Project PRIME, military personnel pay will be charged statistically to the division, and such statistical charges are to be incorporated into the Division's expense operating budget. The purposes for incorporating military pay within the division's expense operating budget are:

1. To develop an awareness of the cost of military personnel assigned.

2. To establish a means to compare military personnel costs against other manpower resources, such as civilian personnel or contract personnel.

3. To relate the total cost of actual to planned operations.

Although Project PRIME considers that military personnel costs constitute the most important single element of controllable cost not now budgeted or accounted for, specific constraints on the division commander should be borne in mind. The division commander exercises little control over personnel transfers to and from the division; personnel are managed by Headquarters, Marine Corps. For this reason, the Division commander's flexibility to effect resource "trade-offs" is limited. This limitation is recognized by Project PRIME which excepts combat units from detail cost

computations for military personnel services. However, aggregate total standard costs will be accumulated and included in the division's expense operating budget. This requirement will apprise the division commander of the costs attendant to employing his most expensive and scarce resource--Marines. Additionally, military personnel cost information will provide a means for the commander to compare the personnel-employment effectiveness among subordinate units.

Whereas it is proposed that military personnel costs will be statistical charges to the division, depot repair costs for investment-type equipment will be actual charges to the division's operating funds. Heretofore, depot repair of major equipment items has been performed on a nonreimbursable basis; depot repair costs have been charged to another project under the appropriation Operation and Maintenance by the supply center performing the repair. Further, the Commandant of the Marine Corps has prescribed annually the numbers and types of major equipment items to be shipped to the supply centers for depot repair and reconstruction. This procedure probably will continue. However, it is concluded that the division will be charged for the costs of repair of major equipment items. Depot repair costs will constitute a significant increase in the division's expense operating budget.

It is obvious that increasing the number of Stock Fund items to be purchased, adding military personnel costs statistically, and charging for depot repair costs will increase significantly the scope of operating

expenses budgeted and accounted for by the division commander. These additions provide the division commander with a keener appreciation of the division's total operating costs than is presently possible. With this information readily available, the commander should be able to prepare and justify budgets on a more realistic basis. Also, the commander will be in a better position to measure the effectiveness and efficiency of subordinate units on the basis of the comparison of total operating resources furnished (inputs) with resources consumed in mission performance (outputs). Finally, within the constraints imposed by higher authority, the division commander will possess increased flexibility to use resources in the manner deemed best to accomplish the division mission in the most effective and efficient manner.

Project PRIME's implementation on July 1, 1967, will affect significantly the functions of the division comptroller. A comparison of the comptroller's present functions set forth in Chapter III with the expense operating budget system requirements contained in Chapter IV supports this conclusion. Under allotment accounting procedures, the division comptroller is primarily involved in the budgeting and accounting for an estimated 15 to 20 per cent of the division's operating expenses. The comptroller will be managing a substantially greater percentage of the division's operating expenses when the expense operating budget system becomes effective. The precise percentage of the division's operating expenses to be managed locally remains to be determined; however, the

Project PRIME goal is 100 per cent.

In actuality, the comptroller's principal concern to date has been the prevention of an overobligation or overexpenditure of allotted funds; overobligations or overexpenditures of authorized funds do and will result in severe censure from higher authority. While the overexpenditure of funds will be a continuing concern, the comptroller will possess added financial flexibility to cope with this eventuality. First, the comptroller will be managing greater amounts of funds and, secondly, the system design affords the capability for shifting funds from one expense area to another, if required. The only over-all constraint is that the expense operating budget authority not be exceeded without permission. Of significance is the fact that the comptroller's role will evolve from a staff officer seeking primarily to prevent fund overexpenditure to that of managing the division's operating expenses in a manner designed to achieve maximum organizational effectiveness from resources authorized.

A careful examination of the expense operating budget system design described in Chapter IV raises questions relative to the capability of the division comptroller's office, as presently staffed, to manage such a system effectively. Currently, allotment budgeting and accounting procedures totally occupy assigned personnel. Expense operating budget procedures impose the added requirement for employing sophisticated cost-accounting techniques which are integrated into a double-entry book-keeping system. Only by applying these accounting techniques can the

expense operating budget system truly be effective. Yet, few Marine officers or enlisted men possess the requisite accounting skills. The conclusion reached is that more Marines must be trained in cost-accounting techniques to permit adequate staffing of comptrollers' offices throughout the Fleet Marine Forces.

Proper evaluation of the data generated by the expense operating budget system requires an organizational capability to analyze system operation and to determine variances of actual results from planned results. Variance determination and analysis are necessary prerequisites to system adjustment by the commander. As described in Chapter III, functions of the division comptroller include (1) the comparison of program performance with the financial plan and (2) the analysis of variances and the determination of required adjustments. Current staffing of the division comptroller's office does not appear to provide for the accomplishment of these important functions. In all likelihood, these system-evaluation functions are being performed, if at all, by members of other units in the comptroller's office as additional duties. This organizational capability must exist to permit the proper functioning of the expense operating budget system. Therefore, the conclusion is reached that the current staff of the division comptroller must be augmented by a Systems Analysis Unit charged with the responsibility for continuous system review.

In conclusion, implementation of Project PRIME will necessitate a division-wide indoctrination program. The impact of Project PRIME will

be felt by all echelons of command within the division as responsibility and cost centers are established and become operable. Regimental, battalion, company, and platoon commanders will become aware, shortly, that unit-to-unit cost comparisons are being made and analyzed by division headquarters. These commanders diligently will seek knowledge of the expense operating system and endeavor to learn how the system affects them. When unit commanders learn that financial management will become a criterion for the measurement of effectiveness, they will search for methods to improve operating effectiveness without sacrificing efficiency.

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APPENDIX A

APPENDIX A

DEPARTMENT OF DEFENSE DIRECTIVE

No. 7000.1

The Department of Defense is committed to the highest standards of integrity and ethical conduct. This directive establishes the policies and procedures for the Department of Defense to ensure that all personnel are held accountable for their actions and that the Department of Defense maintains the highest standards of integrity and ethical conduct.

1. PURPOSE

The purpose of this directive is to establish the policies and procedures for the Department of Defense to ensure that all personnel are held accountable for their actions and that the Department of Defense maintains the highest standards of integrity and ethical conduct.

2. SCOPE

This directive applies to all personnel of the Department of Defense, including all active and reserve personnel, and all contractors and subcontractors.

- 1.1. This directive applies to all personnel of the Department of Defense, including all active and reserve personnel, and all contractors and subcontractors.
- 1.2. This directive applies to all personnel of the Department of Defense, including all active and reserve personnel, and all contractors and subcontractors.
- 1.3. This directive applies to all personnel of the Department of Defense, including all active and reserve personnel, and all contractors and subcontractors.
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- 1.7. This directive applies to all personnel of the Department of Defense, including all active and reserve personnel, and all contractors and subcontractors.
- 1.8. This directive applies to all personnel of the Department of Defense, including all active and reserve personnel, and all contractors and subcontractors.
- 1.9. This directive applies to all personnel of the Department of Defense, including all active and reserve personnel, and all contractors and subcontractors.
- 1.10. This directive applies to all personnel of the Department of Defense, including all active and reserve personnel, and all contractors and subcontractors.

ASD(COMP)

DEPARTMENT OF DEFENSE DIRECTIVE

SUBJECT: Resource Management Systems of the Department of Defense

- REFS:
- (a) DOD Directive 7040.1, "Program for Improvement in Financial Management in the Area of Appropriations for Operation and Maintenance," May 29, 1959 (hereby cancelled)
 - (b) DOD Directive 7041.1, "Cost and Economic Information System," July 7, 1964 (hereby cancelled)
 - (c) DOD Directive 5118.3, "Assistant Secretary of Defense (Comptroller)," January 24, 1966 (Section III. A. hereby superseded and cancelled)

I. PURPOSE

This Directive establishes the objectives and basic policies for the improvement of Department of Defense resource management systems.

II. APPLICABILITY

The provisions of this Directive apply to all components of the Department of Defense.

III. DEFINITIONS

A. Resource Management Systems:

1. Resource management systems include all procedures for collecting and processing recurring quantitative information that (1) relates to resources and (2) is for the use of management. They also include procedures which are closely related to quantitative systems even though the systems may not themselves be primarily quantitative. Resources are men, materials (i. e., real and personal property), services and money.

2. This definition excludes all non-resources (e. g. , intelligence, tactical doctrine, military justice), and all non-systems (e. g. , one-time collections of data, submission of test reports, exchange of correspondence).
 3. Resource management systems are ordinarily described in terms of the flow and processing of information, and the common denominator of this information is often monetary but the information may be non-monetary.
 4. Resource management systems include, but are not limited to, the following:
 - a. Programming and budgeting systems;
 - b. Systems for management of resources for operating activities;
 - c. Systems for management of inventory and similar assets;
 - d. Systems for management of acquisition, use and disposition of capital assets.
- B. Working Capital: Consists of current resources on hand, such as cash, inventories of consumable materiel, other current assets less liabilities and contracts and orders outstanding, prior to issue of materiel to users or services actually rendered.
- C. Expense Operating Budget: An approved operating plan which is the basis of authorization and financial control of expenses and working capital in the execution of a program or programs.
- D. Operating Activities: Each major organizational subdivision or entity made responsible for execution of an identifiable segment of a program.
- E. Financial Control: The budgetary control or management of a unit or function in accordance with an approved budget with the view of keeping expenses within the limitation thereof.

IV. OBJECTIVES

The objectives of the Department of Defense resource management systems are:

- A. To provide managers at all levels within the Department of Defense with information that will help them assure that resources are obtained and used effectively and efficiently in the accomplishment of :Department of Defense objectives.
- B. To provide information that is useful in the formulation of objectives and plans.
- C. To provide data to support program proposals and requests for funds.
- D. To provide a means of assuring that statutes, agreements with Congressional committees, and other requirements emanating from outside the Department of Defense relating to resources, are complied with.

V. POLICIES

- A. Department of Defense approved plans will be stated in the Five Year Defense Program. This program will be the nucleus of Department of Defense resource management systems; and planning, programming, budgeting, accounting and reporting for the Department of Defense will be consistent with it.
- B. Programming and budgeting systems will:
 - 1. Be correlated as fully as possible with each other and with management accounting systems, using common data elements and definitions, translatable structures and non-duplicative procedures and schedules.
 - 2. Be organized so as to focus on the goals, purposes and outputs of the Department of Defense, and on the costs of achieving these goals.
- C. Systems for management of resources of operating activities will:
 - 1. Focus on outputs and on resources used, i. e. , expenses.
 - 2. Focus on managers who are responsible for effective and efficient utilization of resources.
 - 3. Focus on actual performance in relation to planned performance.
 - 4. Use expense operating budgets and accounting as a primary aid in management control at each organizational level.

5. Use working capital to hold resources in suspense in both time and place between the acquisition of resources and their consumption.

D. Systems for management of inventory will:

1. Measure available inventory in readiness terms, against approved requirements.
2. Be capable of summary aggregations to meet the needs of all management levels.
3. Maximize the capability to use common stores of inventory for all DOD purposes and consumers.

E. Systems for management of capital acquisitions will:

1. Focus on the item (or component thereof) being acquired, its quality, its time schedule, and its cost, in terms of both plans and actuals.
2. Include special information subsystems applicable to acquisitions of selected major capital items.
3. Be standardized and controlled, to the extent practicable, so as to minimize the data gathering and reporting workload imposed on contractors and in-house activities.
4. Be structured so as to minimize changes required to accounting systems used by contractors.

F. Resource management systems will be oriented to the needs of management, but they also must provide information required by the Congress, Bureau of the Budget, Treasury Department, and by other Government agencies. Where the information required by these outside agencies is not the same as that used for resource management, translation from one type to the other will be accomplished at the headquarters level of each military department and Defense agency.

G. Systems will be designed to provide data to meet the need at each management level. As a general policy, data at each management level will consist of summaries of data used at lower levels.

H. Resource management systems will be designed to assure compliance with limitations, prohibitions and other requirements or

understandings which are or may be established by law, direction or agreement within the Executive Branch of the Government or with the Congress.

- I. Each system or subsystem will be compatible with other systems; it should not overlap or duplicate other systems; all the data should meet a recognized need; the value of the information obtained must exceed the cost of collecting it; standard terms and data elements should be used to the extent feasible.

VI. RESPONSIBILITIES

- A. Subject to the direction, authority, and control of the Secretary of Defense, the Assistant Secretary of Defense (Comptroller) has the responsibility to provide for the design and installation of resource management systems throughout the Department of Defense.
- B. This responsibility requires that the Assistant Secretary of Defense (Comptroller):
 1. Maintain an overview of all DoD resource management systems activity, including an inventory of all significant DoD resource management systems, that are either in use or under development.
 2. Review and approve proposed significant changes in resource management systems or proposed new systems.
 3. Insure compatibility and uniformity among resource management systems.
 4. Provide policy guidance for the characteristics of and general criteria governing resource management systems.
 5. Insure standardization of data elements and data codes.
 6. Under certain circumstances, as described below, develop new systems or improvements in existing systems.
- C. In discharging this responsibility, the Assistant Secretary of Defense (Comptroller) will take the lead in developing certain types of resource management systems. Primarily, these are systems that are principally financial information. With respect

to other resource management systems, the office primarily responsible for the function that a system is to serve will normally take the lead in development. In the latter case, the Comptroller will assist to the extent feasible, and has responsibility only for assuring that the final product meets the criteria for an acceptable system, as specified in Section V.

The Comptroller will not take the lead in resource management systems that do not primarily involve financial information unless he is requested to do so by the responsible office.

- D. The Comptroller should be advised of plans for a new system or a system change from the outset, so that proposals that are unlikely to meet these criteria can be called to the attention of the lead office at the earliest possible time.
- E. Although the Assistant Secretary of Defense (Comptroller) has a similar responsibility for resource management systems developed within Military Departments or Defense Agencies, he normally will exercise this responsibility only by examining and approving proposed systems and significant system changes. He will look to his counterparts in the Military Departments or Defense Agencies to exercise responsibility within their organizations corresponding to that described above.
- F. The Comptroller does not normally use the information provided by a system, unless it relates to the Comptroller function. His primary responsibility is to provide for the development of systems that will help managers do their jobs.

VII. CANCELLATION

References (a), (b), and Section III. A. of (c) are hereby cancelled.

VIII. EFFECTIVE DATE

This Directive is effective on publication.

/s/

Deputy Secretary of Defense

APPENDIX B

GLOSSARY OF TERMS

GLOSSARY OF TERMS¹

General Budgeting Terms

Allotment. An authorization of funds issued on NavCompt Form 372 by authorized officials of Headquarters, Marine Corps, to another office, organization, or station for one or more specified purposes.

Primary Allotment. The authorization used as the original grant of funds to a field commander by Headquarters, Marine Corps.

Suballotment. An authorization of funds by the primary allotment holder to a field commander of another Marine Corps activity. The authorization of suballotment may be made by use of the Allotment or Suballotment Authorization, NavCompt Form 372, or by a letter. If a letter is used, it must show the commanding officer to whom the suballotment is being given, the amount for which the commanding officer receiving the funds will be responsible, and all applicable appropriation data. The expenditures made from suballotted funds must be in accordance with the purposes and within the functions of the primary allotment.

Appropriation. An act of Congress authorizing a specific amount of funds to be used for designated purposes, and for payments to be made out of the Treasury of the U.S.

Annual Appropriation. An appropriation which is available for obligations during one fiscal year only. For expenditures, however, an annual appropriation is available for an additional two years. The annual appropriations for the Marine Corps are: (1) Military Personnel, Marine Corps; (2) Reserve Personnel, Marine Corps; and (3) Operation and Maintenance, Marine Corps.

Budget. A plan of financial operations showing an estimate of funds, in dollars, needed to carry out an assigned mission or missions over a specified period of time.

¹ Marine Corps, Budget Formulation and Execution, op. cit., Chapter 1, pp. 7-10.

Financial Management Board. In the Marine Corps, a group of the Commandant's staff officers composed of the following members: G-1, G-3, G-4, Quartermaster General of the Marine Corps, Director of Aviation, Director of Personnel, Director of Reserves, and Director of Administrative Division. This group of officers provides counsel to the Fiscal Director in matters of financial management within their respective fields of responsibility. Some field activities also have a financial management board composed of staff officers who provide counsel to the commanding officer in financial matters.

Budget Year. The fiscal year which immediately follows the current fiscal year. For example, if the current fiscal year is 1 July 1965 through 30 June 1966, the budget year for that fiscal year is 1 July 1966 through 30 June 1967.

Current Fiscal Year. The fiscal year preceding the budget year. For example, if the budget year is 1 July 1966 through 30 June 1967, the current fiscal year would be 1 July 1965 through 30 June 1966.

Fiscal Quarter. A quarterly (three month) division of a fiscal year.

Fund. A sum of money or other resources, usually divided to be expended or used for specified purposes.

Guidance. Instructions issued originally by the Secretary of Defense to all military departments, containing necessary strategic and economic information to enable those departments to formulate their plans and program objectives for the budget year. It is passed down similarly to field commands within each department.

Justification. The supporting statements and data used to substantiate requirements for the amounts in a budget estimate.

Project. A planned undertaking to be accomplished or maintained, for which a separate account or accounting is established. In military budgeting this term is the equivalent of a function or mission.

Related Terms

Commitment. A firm administrative reservation of funds based upon firm procurement directives, orders, requisitions, or requests. A commitment authorized its recipient to create obligations without further recourse to the official responsible for certifying the availability of funds.

Expenditure. An amount of money actually paid out from an appropriation. Examples of expenditures include checks drawn or cash expended in payment of bills, and transfers from one appropriation to another as a result of obligations.

Functional Account (FA). A functional account number (formerly called expenditure account number (EAN), classifies expenditures according to the end use or purpose for which such expenditures are made.

Obligation. A duty to make a future payment of money for such transactions as those involving travel, order placed for goods or materials, contracts awarded, services rendered, or similar transactions during a given period. It is not necessary that goods actually be delivered or that services actually be performed before the obligation is created; neither is it necessary that a bill or invoice be received first. The placement of the order is sufficient.

Overobligation/Overexpenditure. Any action which results in obligations/expenditures exceeding the amount of funds authorized. Both over-obligation and overexpenditure are prohibited by law and regulations.

Planning Estimate. An administrative means of subdividing an allotment or suballotment issued to an operating component of an activity for management by them. The holder is authorized to incur obligations up to the amount specified in the authorizing document, although he does not assume legal responsibility within the provisions of Section 3679, 31 U.S. Code 665 for overobligation. He is responsible to the grantor, as subordinate to superior, to insure that the amount specified in the planning estimate is not exceeded.

Statistical Costs. Costs which do not cause a reduction in the amount available for obligation at the field level. Statistical cost is the term applied to Marine Corps Appropriation Stores Account material issued to a Marine Corps using unit. Also included within the meaning of the term "statistical cost" (at the field activity level) is military labor.

APPENDIX C

ANNUAL BUDGET ESTIMATES (FUND REQUEST)

PROJECT 11, FORMAT A

(a)	(b) EAN	Total Allot (Proj 11) Charges			(f) Suspense & Drawdown, Spread	(g) Total Columns (5) & (6)	Breakdown of Col (7) by Type of Trng&Opns			ASA (k) Statistical Charges
		Procurement From MCSF (c)	(d) Other	Total Columns (3) & (4) (e)			(h) Basic Activities	(i) Field Training & Amphibious Exercises	(j) Operational Deployments	
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
1. <u>Operations (Less Materiel Maintenance)</u>										
a. Administrative & Operating.....	85010									xxxxx
b. Training.....	85012									xxxxx
c. Emergency leave travel.....	85013									xxxxx
d. Schools training.....	85014									xxxxx
e. Marksmanship program (less requal)....	85015									xxxxx
Subtotal										xxxxx
f. Printing and reproduction.....	43119									xxxxx
g. Data processing (EAM and EDPM).....	49115									xxxxx
h. Welfare and recreation supplies.....	75802									xxxxx
Subtotal										xxxxx
Operations, TOTAL.....										xxxxx
2. <u>Maintenance of Equipment</u>										
Communications Electronics:										
Organizational (1st and 2d Echelon).....	84021									
3d Echelon.....	84023									
4th Echelon.....	84025									
Commercial Contract-Cross Serv.Agreement	84027									
TOTAL										
Engineer:										
Organizational (1st and 2d Echelon).....	84031									
3d Echelon.....	84033									
4th Echelon.....	84035									
Commercial Contract-Cross Serv.Agreement	84037									
TOTAL										
General Property:										
Organizational (1st and 2d Echelon).....	84041									
3d Echelon.....	84043									
4th Echelon.....	84045									
Commercial Contract-Cross Serv.Agreement	84047									
TOTAL										
Ordnance:										
Organizational (1st and 2d Echelon).....	84051									
3d Echelon.....	84053									
4th Echelon.....	84055									
Commercial Contract-Cross Serv.Agreement	84057									
TOTAL										
Motor Transport:										
Organizational (1st and 2d Echelon).....	84061									
3d Echelon.....	84063									
4th Echelon.....	84065									
Commercial Contract-Cross Serv.Agreement	84067									
TOTAL										
Maintenance of Equipment, TOTAL.....										
3. <u>Procurement of Materiel (Classes II & IV)</u>										
a. <u>I/E Equipment & Type II Non-RD</u>										
Requirements										
Deficiencies Existing Units.....	83110						xxxxx	xxxxx	xxxxx	xxxxx
Activation New Units.....	83120						xxxxx	xxxxx	xxxxx	xxxxx
Change in Allowances.....	83130						xxxxx	xxxxx	xxxxx	xxxxx
Special One Time Procurement.....	83140						xxxxx	xxxxx	xxxxx	xxxxx
TOTAL							xxxxx	xxxxx	xxxxx	xxxxx
b. <u>Mount Out</u>										
Deficiencies Existing Units.....	83210						xxxxx	xxxxx	xxxxx	xxxxx
Activation New Units.....	83220						xxxxx	xxxxx	xxxxx	xxxxx
Change in Allowance.....	83230						xxxxx	xxxxx	xxxxx	xxxxx
New Item Support.....	83240						xxxxx	xxxxx	xxxxx	xxxxx
Packaging and Preservation.....	83250						xxxxx	xxxxx	xxxxx	xxxxx
TOTAL							xxxxx	xxxxx	xxxxx	xxxxx
c. <u>Garrison Operating Stocks</u>										
Deficiencies Existing Units.....	83310						xxxxx	xxxxx	xxxxx	xxxxx
Activation New Units.....	83320						xxxxx	xxxxx	xxxxx	xxxxx
Change in Allowances.....	83330						xxxxx	xxxxx	xxxxx	xxxxx
New Item Support.....	83340						xxxxx	xxxxx	xxxxx	xxxxx
TOTAL							xxxxx	xxxxx	xxxxx	xxxxx
d. <u>Training Allowance</u>										
Deficiencies Existing Units.....	83410						xxxxx	xxxxx	xxxxx	xxxxx
Activation New Units.....	83420						xxxxx	xxxxx	xxxxx	xxxxx
TOTAL							xxxxx	xxxxx	xxxxx	xxxxx
e. <u>Encampment Garrison</u>										
Deficiencies Existing Units.....	83510						xxxxx	xxxxx	xxxxx	xxxxx
New Units.....	83520						xxxxx	xxxxx	xxxxx	xxxxx
TOTAL							xxxxx	xxxxx	xxxxx	xxxxx

3. Procurement of Materiel (Classes II & IV)									
a. T/E Equipment & Type II Non-RD Requirements									
Deficiencies Existing Units.....	83110					xxxxx	xxxxx	xxxxx	xxxxx
Activation New Units.....	83120					xxxxx	xxxxx	xxxxx	xxxxx
Change in Allowances.....	83130					xxxxx	xxxxx	xxxxx	xxxxx
Special One Time Procurement.....	83140					xxxxx	xxxxx	xxxxx	xxxxx
TOTAL						xxxxx	xxxxx	xxxxx	xxxxx
b. Mount Out									
Deficiencies Existing Units.....	83210					xxxxx	xxxxx	xxxxx	xxxxx
Activation New Units.....	83220					xxxxx	xxxxx	xxxxx	xxxxx
Change in Allowance.....	83230					xxxxx	xxxxx	xxxxx	xxxxx
New Item Support.....	83240					xxxxx	xxxxx	xxxxx	xxxxx
Packaging and Preservation.....	83250					xxxxx	xxxxx	xxxxx	xxxxx
TOTAL						xxxxx	xxxxx	xxxxx	xxxxx
c. Garrison Operating Stocks									
Deficiencies Existing Units.....	83310					xxxxx	xxxxx	xxxxx	xxxxx
Activation New Units.....	83320					xxxxx	xxxxx	xxxxx	xxxxx
Change in Allowances.....	83330					xxxxx	xxxxx	xxxxx	xxxxx
New Item Support.....	83340					xxxxx	xxxxx	xxxxx	xxxxx
TOTAL						xxxxx	xxxxx	xxxxx	xxxxx
d. Training Allowance									
Deficiencies Existing Units.....	83410					xxxxx	xxxxx	xxxxx	xxxxx
Activation New Units.....	83420					xxxxx	xxxxx	xxxxx	xxxxx
TOTAL						xxxxx	xxxxx	xxxxx	xxxxx
e. Encampment Garrison									
Deficiencies Existing Units.....	83510					xxxxx	xxxxx	xxxxx	xxxxx
New Units.....	83520					xxxxx	xxxxx	xxxxx	xxxxx
TOTAL						xxxxx	xxxxx	xxxxx	xxxxx
4. Replenishment T/E Equipment									
Communication - Electronics.....	83610								
Construction Supply and Related Equipment.....	83620								
General Property.....	83630								
Ordnance.....	83640								
Motor Transport.....	83650								
TOTAL									
5. Procurement for Issues of Materiel End Use Not Immediately Known. (Suspense)	83999			xxxxx	xxxxx	xxxxx	xxxxx	xxxxx	
Stock Fund Credit (Shown as a minus quantity).....		xxxxx		xxxxx		xxxxx	xxxxx	xxxxx	
TOTAL ALLOT - Fund Request-Budget Estimate	xxxxx			xxxxx					
Deduct Suspense.....	xxxxx			xxxxx	xxxxx	xxxxx	xxxxx	xxxxx	xxxxx
Total Usage Basis.....	xxxxx								

① QUARTERLY BREAKDOWN OF BUDGET ESTIMATES			
First Quarter	Second Quarter	Third Quarter	Fourth Quarter

Ⓜ

Object Classification

Object Class	Amount
11 Personnel Compensation.....	
12 Personnel Benefits.....	
13 Benefits of Former Personnel.....	
21 Travel and Transportation of Personnel.....	
22 Transportation of Things.....	
23 Rent, Communications, and Utilities.....	
24 Printing and Reproduction.....	
25 Other Services.....	
26 Supplies and Materials.....	
31 Equipment.....	
32 Land and Structures.....	
41 Grants, Subsidies and Contributions.....	
42 Insurance Claims and Indemnities.....	
43 Interest and Dividends.....	
44 Refunds.....	
TOTAL	

Indicate Applicable Fiscal Year:

"Current FY"

"Budget Year FY"

"Budget Year + 1"

Ⓝ

Submitted

Ⓞ

Signature

Rank

Date

Fig 3-4. Annual Budget Estimates (Fund Request). Project 11, Format A



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Impact of Project PRIME on the Fleet Mar



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